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

First Quarter 2007

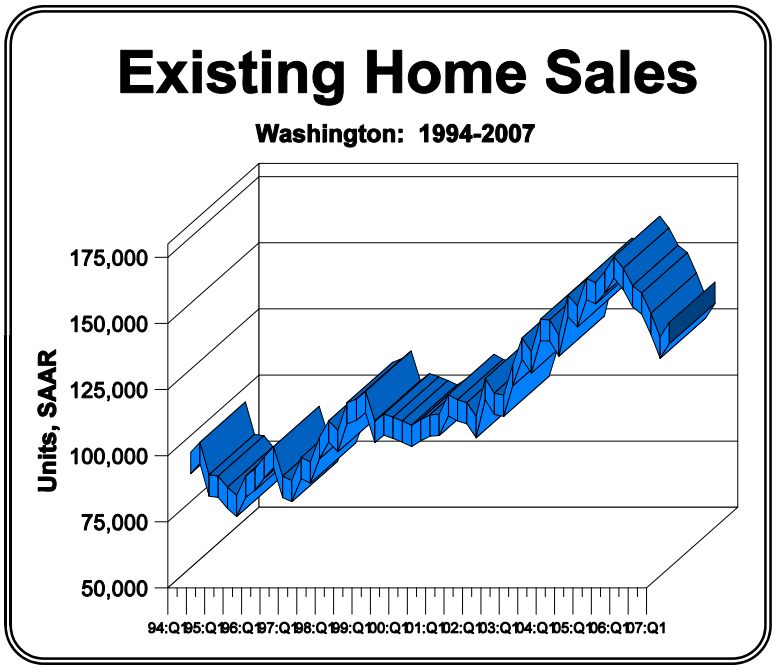
Washington Center for Real Estate Research
Washington State University
P.O. Box 644844
Pullman, WA 99164-4844
(800) 835-9683

Early 2007 has been marked by news stories of the collapse of the housing market in many formerly high-flying markets such as Las Vegas, Phoenix and Miami. However, the Pacific Northwest is often identified defying the trend of significantly increased inventories of homes on the market and striking price declines. Since the extraordinary housing market arrived in Washington State a bit later than other areas due to a longer and deeper recession than in other areas, it also seems to be a bit more resilient. Home sales in the first part of the year, while slower than a year ago, remain strong by historic standards, and home prices are still well above a year ago, but the pace of increase has clearly slowed.

Home Resales

Beginning with this issue of **Washington State's Housing Market**, the statistics on existing home sales have been revised in two significant ways. First, the statistics have been made consistent with the 2000 Census. While MLS statistics serve as the primary input to these measures, it is recognized that not all arms length transactions are handled by real estate professionals or go through multiple listing systems. Accordingly, the data is scaled for consistency with the Census in the same way that national statistics of existing home sales are made consistent with the Census by the National Association of Realtors®. The other major change is the introduction of seasonally adjusted annual rate data. It is widely understood that housing markets are seasonal – i.e. sales are much stronger from April through October than they are in November through March. Without seasonal adjustment, the only meaningful comparisons are to the same quarter in prior years. Once the seasonally adjusted data has been prepared, the statistics can be compared from quarter to quarter, allowing much more timely analysis. Most economic time series are released at seasonally adjusted annual rates, meaning these data are now on a par with national home sales and building permit data.

Statewide home sales during the first quarter were 4.4 percent above the sales rate in the final quarter of 2006. It is, however, too early to say whether market conditions have turned around, especially since the seasonally adjusted annual rate of 139,080 units sold reported for the quarter is still 8.9 percent below the year ago level.



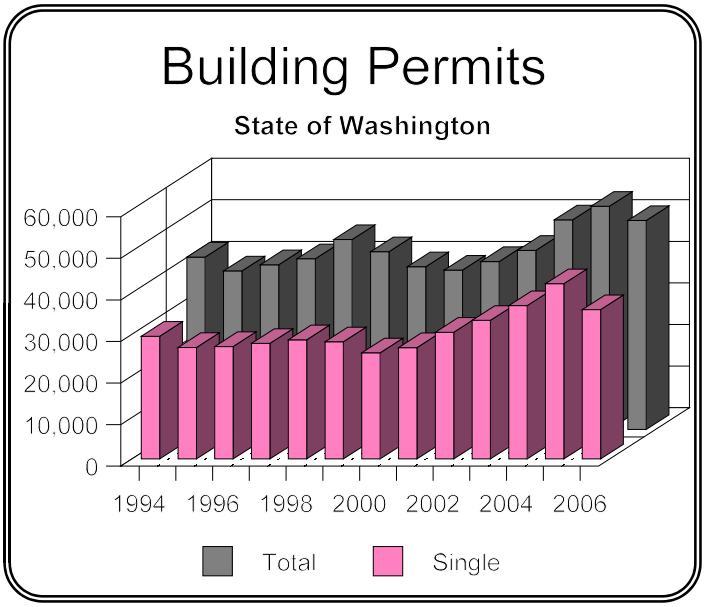
Note: This report uses the definitions of metropolitan and micropolitan areas by the Office of Management and Budget. Briefly, metropolitan areas are larger communities with at least 50,000 people in the urban core. Micropolitan areas are smaller cities, with 10,000-50,000 people in the urban core. Currently,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

To smooth the transition of users who have keyed on the not seasonally adjusted data for the 13 years WCRER has been reporting these statistics, the number of units sold during the first quarter were 26,720 a decline of 9.2 percent compared to the revised data for the first quarter of last year.

Home sales declined in the first quarter, compared to the closing quarter of 2006 in 15 of Washington's 39 counties. The sharpest drop was 18.2 percent in tiny Wahkiakum County, while the largest gain was 34.5 percent in Chelan County (Wenatchee). Among the metropolitan counties, the greatest improvement in sales was the Chelan County surge, while the greatest decline was 12.2 percent in Asotin County (Lewiston, ID-WA). For the smaller micropolitan areas, existing home sales activity ranged from the 31.5 percent jump in Grays Harbor County to a 10.4 percent slide in Walla Walla County. Rural areas ranged from a 21.4 percent increase in sales in Okanogan County to the 18.2 percent sales decline in Wahkiakum County. King County's sales rate was 35,710, an increase of 6.2 percent compared to the prior quarter, far outdistancing Pierce County's second-highest sales rate of 16,530.

Housing Construction

Construction activity, as measured by building permits, surged 19.8 percent compared to early 2006, producing a statewide total of 11,501 permits issued in those jurisdictions which report monthly data to the Census Bureau. While this data sounds like a construction recovery is underway, it is important to note that single-family building permits actually declined 11.8 percent compared to a year ago. The construction strength was exclusively in the volatile multifamily permits (duplex units through rental or ownership apartments) more than doubled from a year ago. This reflects both continued improvement in the rental market where vacancies are already declining, as well as continued strength in the condo market (although recent news stories suggest that market is slowing significantly). On a local level, total building permits more than doubled compared to a year ago in King County, recording the largest county total of 4,912 permits (although single-family permits declined by 13.7 percent). Snohomish County recorded the second-highest total of 1,457 permits issued, a decline of 8.9 percent (single-family permits declined 11.2 percent). A total of 10 of the 28 counties where the Census Bureau compiles monthly statistics had an increase in total permits during the first quarter compared to early 2006, and eight of those managed increased single-family construction.

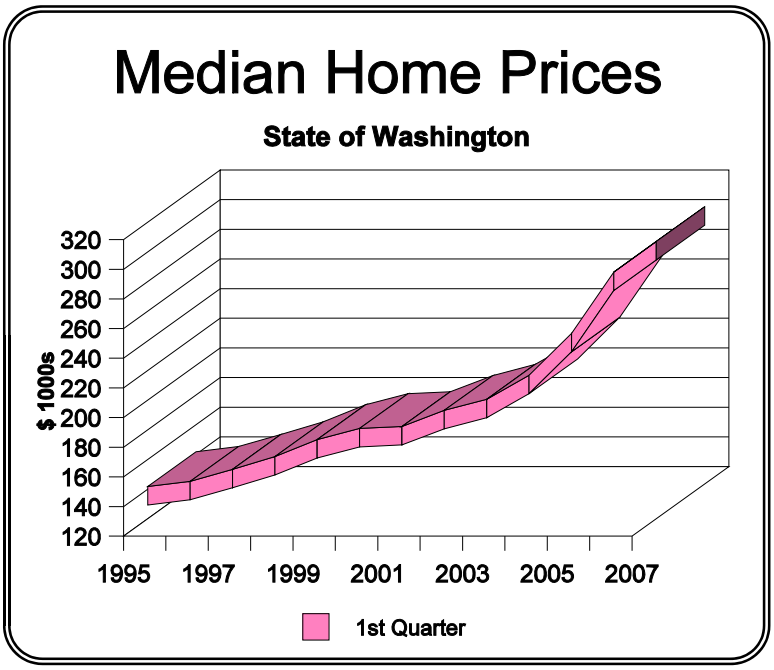


This report also includes the complete information on building permits and housing inventory for 2006. Total building permits for residential construction slipped by 6.4 percent last year, recording a total of 50,297 units permitted. As illustrated in the accompanying graphic, 2006 recorded the third-highest level of building permit activity on record, a fact which should not be ignored in an effort to illustrate the market decline. Single-family permits declined by 14.9 percent during 2006, totaling 35,865 units. Among the metropolitan counties the steepest percentage decline in single-family permits was 31.9 percent in Clark County. At the other extreme, single-family permits increased by 32.2 percent in neighboring Cowlitz County, suggesting increased commuting. In the smaller urban areas Clallam County had

the biggest decline last year in single-family permits (36.6 percent) while Grays Harbor County recorded the largest increase (32.5 percent). Statewide, the total inventory of housing units has increased 11.1 percent this decade, ranging from a surge of 38.3 percent in Franklin County (Pasco) to a modest 2.1 percent in Garfield County, which also has the fewest housing units of any county in the state (1,316).

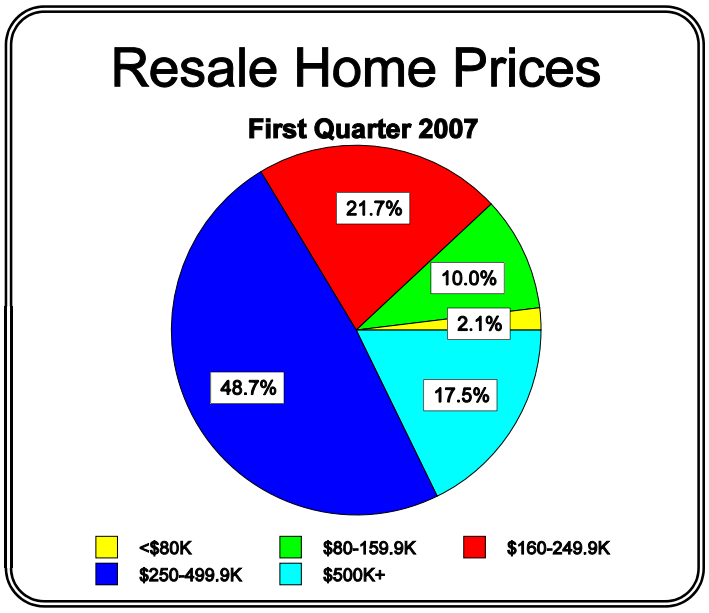
Home Prices

The median selling price for a resale home in the State of Washington during the first quarter of 2007 increased 7.4 percent from the first quarter of 2006, to $300,800. While this increase in median prices remains double the inflation rate throughout the economy, it should be noted that this is the slowest year-to-year increase in median prices statewide since late 2003. It is also the fifth consecutive quarter of slowing price increases.



Local area median prices ranged from a low of $96,700 in Adams County (the only median below $100,000) to a high of $475,000 in San Juan County. King County remained the highest cost metropolitan market with a median of $440,000, 10.1 percent higher than a year ago. Last year 13 counties reported medians above $200,000, but in early 2007 that number reached 16. Price data is reported for the first time for both Klickitat and Skamania counties, allowing WCRER to produce median price and affordability statistics for 38 of the 39 counties in Washington. Only Lincoln County data remains unavailable.

Reported prices in five counties were below the medians reported a year ago. San Juan County showed a 24.1 percent decline. This resort market has exceptionally high prices and small numbers of sales during the winter months. These factors result in wide swings in median prices, and year-to-year price comparisons which many not be meaningful, although they are accurate. Other small counties reported significant large increases in median prices, subject to the same caveats. Among the micropolitan areas the largest increase was 23.5 percent in Lewis County to a median of $189,800 while the only decline was 4.3 percent in Whitman county to $180,000. Moving to the larger metropolitan counties, the largest year-to-year increase in median price was 28.9 percent in Douglas County, while the slowest increase was 3.4 percent in Thurston County to a median of $255,000. No metropolitan county reported a median price below a year ago.



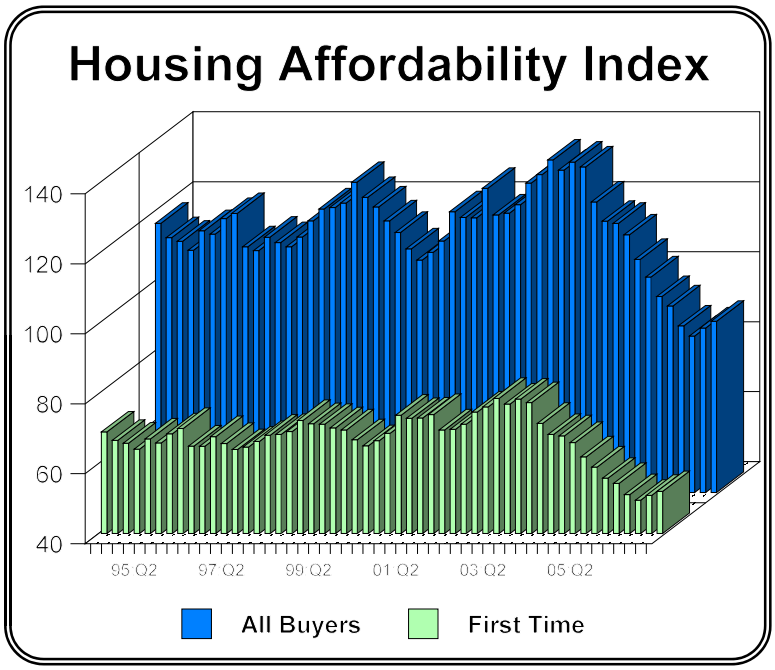
Measures of central tendency, like median prices (half the homes sold were more expensive,

half less) which use a single number to represent a distribution of home prices, tend to confuse some consumers into believing there is nothing less expensive than the median in the marketplace. While there were significant numbers of homes which sold for prices well below the statewide median, the largest concentration of less costly housing is outside a reasonable commuting distance from major population centers. However, even in urban areas, lower cost housing is often available, especially if the buyer is willing to invest some hard physical labor improving the home. In fact, while "only" 2.1 percent of the single-family homes sold during the first quarter were priced no higher than $80,000, this represents annual sales of about 2,920 homes. Clearly, affordable ownership housing is available and being purchased throughout Washington state. It should be stressed that these statistics represent only resale, single-family homes. Condominium apartments and manufactured homes represent other affordable ownership housing options. It is worth noting that significantly more homes sold during the first quarter at prices in excess of $500,000 than sold for prices below $160,000.

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 (6.42 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 first quarter stood at 88.9. This value indicates that a median income family had only 88.9 percent of the income to marginally qualify for a mortgage on the median price home. This was the sixth consecutive quarter where the median income family could not afford the typical home under the assumed conditions. This represents a fairly typical value for the all-buyer index in a national historical context. After declining through mid-year 2006 as mortgage rate rose and sales prices soared, the affordability index has stabilized and improved very modestly for the last two quarters and now stands four points above its record low. If a value of 100 determines counties which are affordable, the HAI indicates that housing is less than affordable in 13 of the 39 counties in the state, including most of the urban areas in the I-5 corridor. The most affordable urban area was Benton County (Kennewick/Richland) with an index of 171.5 while the least affordable metropolitan county was King at 70.7. San Juan and Jefferson counties continued to have the least affordable housing overall.



While statistically representative of the total housing market, the all-buyer index

does not adequately describe the difficulty households have purchasing their first home and beginning the process of developing equity. Most first-time buyers are younger, less established in their careers and without the financial means for a large downpayment. Accordingly, a separate index which adjusts the assumptions was developed, again patterned on the national methodology. It assumes a 10 percent down payment, even though many lower down payment programs are widely available. Less expensive homes are purchased by first time buyers, typically at prices 85 percent of the area median price. Because the assumed downpayment is less than 20 percent of the purchase price, mortgage insurance must be carried, effectively increasing the mortgage rate by one-quarter point. Since most higher-income households have already purchased homes, the income measures for renters are lower. Household rather than family incomes are used because many more first-time buyers live alone. To account for the departure of the higher income group from the pool, the first-time buyer income is estimated to be 70 percent of the median household income in the area. Using these assumptions produces a statewide index for the first quarter of 52.0. Again, this is only a little below long-term standards, but represents a significant loss of affordability during the 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 two counties (Adams and Benton). At the other extreme, first-time buyer indexes were below 60 in 15 counties. The first time buyer index was only 31.4 in San Juan County, 39.7 in King County and 39.9 in Jefferson County. First-time buyer affordability levels were generally higher in Eastern Washington.

Affordable Housing Availability

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

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

It is assumed that these buyers would have been able to find mortgages for their purchases at an interest rate of 6.5% (approximately the same as prevailing rates during the quarter).

Affordable Home Purchase Prices for Selected Income/Asset Groups

Income	Affordable Housing Expense (P&I)	Mortgage Amount	Downpayment	Home Purchase Price
$ 25,000	$ 521	$ 82,401	$ 4,337	$ 86,738
$ 50,000	$ 1,042	$164,803	$ 18,311	$ 183,114
$ 75,000	$ 1,563	$247,204	$ 61,802	$ 309,005
$125,000	$ 2,604	$412,007	$ 221,850	$ 633,857

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 $64,334, and ranged from a low of $39,033 in Ferry County to $74,880 in King County. Household incomes were predictably lower, ranging from $32,960

in Ferry County to $61,870 in Snohomish County. The statewide median household income was $52,819. This illustrates that the lower two price ranges remain most relevant for most residents of Washington state.

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

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

Percentage of Homes on Market Below Specified Price – March, 2007

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Asotin	4.1%	40.3%	69.3%	95.6%
Benton/Franklin	7.5%	44.5%	80.6%	97.6%
Chelan/Douglas	1.9%	12.2%	31.3%	79.3%
Clallam	0.0%	2.9%	26.0%	85.0%
Clark	0.7%	1.6%	18.2%	74.9%
Cowlitz	2.8%	24.0%	60.8%	89.3%
Ferry/Pend Oreille/Stevens	6.4%	35.0%	56.5%	91.9%
Grant	5.1%	31.5%	53.8%	91.8%
Grays Harbor	3.1%	25.9%	58.4%	94.1%
Island	0.0%	1.4%	14.4%	68.4%
Jefferson	0.6%	4.7%	17.7%	72.0%
King	0.0%	0.2%	1.8%	45.9%
Kitsap	0.0%	2.0%	19.7%	70.6%
Kittitas	0.3%	3.8%	28.1%	79.2%
Klickitat	4.6%	17.7%	36.6%	85.1%
Lewis	1.6%	14.8%	47.4%	93.5%
Mason	0.2%	15.0%	48.0%	87.8%
Okanogan	5.5%	26.4%	55.7%	85.1%
Pacific	0.8%	21.1%	54.0%	84.9%

	Home Price Maximum			
County	**$80,000**	**$160,000**	**$250,000**	**$500,000**
Pierce	0.0%	1.7%	19.8%	79.9%
San Juan	0.0%	0.0%	1.4%	22.0%
Skagit	1.2%	3.7%	24.2%	73.0%
Skamania	0.0%	11.7%	41.5%	88.3%
Spokane	0.6%	16.2%	48.8%	89.3%
Snohomish	0.2%	0.6%	3.9%	66.9%
Thurston	0.1%	2.1%	24.1%	85.6%
Walla Walla	3.2%	26.7%	61.9%	91.8%
Whatcom	1.4%	4.7%	22.0%	80.0%
Whitman	0.6%	29.1%	62.9%	98.3%
Yakima	12.9%	48.0%	73.8%	97.3%
Statewide	**1.3%**	**8.7%**	**26.1%**	**75.0%**

These statistics demonstrate that in most parts of the state first-time home buyers still face extremely limited choices in the housing market, whereas the trade-up buyers have a wide assortment of homes from which to choose. There were effectively no homes in the 5-county Central Puget Sound region with asking prices below $80,000 while at least a third have an asking price in excess of $500,000. Significantly, fewer than one in 100 homes in 16 counties carry asking prices less than $80,000 (this list was only seven counties a year ago).

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

Available Inventory

News stories abound regarding the "glut" of homes available for sale, both newly constructed units built on spec and resale properties. Certainly inventories in Washington have increased, giving local homebuyers the opportunity to really search for homes that meet their needs, but it is questionable whether this increase in inventory really represents an oversupply of homes on the market. The analysis in this section of the report will begin with the absolute number of homes available for sale, then will continue with an assessment of how that inventory relates to the sales pace observed during the quarter.

Listings Available for Sale – End of March

County	2001	2002	2003	2004	2005	2006	2007	%Ch 2006-07
Asotin	550	517	455	349	336	315	387	22.9%
Benton/Franklin	857	706	1,221	1,439	1,436	1,641	1,436	-12.5%
Chelan/Douglas	609	571	462	442	371	212	377	77.8%
Clark	1,658	1,197	2,160	1,600	1,318	2,532	3,719	46.9%
Cowlitz	519	478	531	454	330	318	533	67.6%
Ferry/Pend Oreille/Stevens	371	441	371	323	261	224	283	26.3%
Grant	423	419	373	355	357	337	292	-13.4%
Grays Harbor	543	615	541	449	336	523	572	9.4%
Island	498	713	649	573	427	573	790	37.9%
Jefferson	170	171	203	175	200	243	361	48.6%
King	6,085	6,782	5,769	5,582	4,063	4,255	6,179	45.2%
Kitsap	1,304	1,174	1,198	844	733	975	1,672	71.5%
Kittitas	n/a	n/a	212	n/a	223	226	370	63.7%
Lewis	554	509	403	359	322	303	616	103.3%
Mason	691	616	481	380	337	407	640	57.2%
Okanogan	n/a	n/a	n/a	n/a	n/a	170	235	38.2%
Pierce	3,672	3,844	3,601	2,647	2,300	3,302	5,474	65.8%
San Juan	152	192	196	221	186	266	218	-18.0%
Skagit	777	721	665	611	429	558	830	48.7%
Snohomish	2,946	3,165	3,286	2,712	1,981	2,253	3,749	66.4%
Spokane	3,676	3,664	1,939	1,512	1,526	1,751	2,617	49.5%
Thurston	1,112	865	824	719	576	1,083	1,714	58.3%
Walla Walla	n/a	396	n/a	n/a	370	583	438	-24.9%
Whatcom	1,746	1,623	972	622	n/a	1,244	1,544	24.1%
Whitman	243	252	214	178	199	196	175	-10.7%
Yakima	1,117	905	873	845	894	877	1,306	48.9%
Statewide	**30,273**	**30,536**	**29,399**	**23,622**	**19,511**	**25,307**	**37,504**	**48.2%**

The table above highlights those years where the inventory of homes available for sale at the end of March

of any year exceeded the inventory available this March. 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 most parts of the state where buyers have had more choices in the market. However, the absolute level of inventory only tells part of the story. The other component of the discussion is how long those units could sustain the market at current sales rates. Again, the conversion to seasonally adjusted annual rate data played a role in these calculations. Rather than minimizing supply by using data from the last four quarters when sales may have been above anticipated levels for this year, seasonally adjusted annual rate data for the current quarter was used to estimate month's supply.

A 5-7 month inventory is considered normal or balanced. Accordingly, the overall state market can be characterized as "approaching balance" with an inventory capable of sustaining the market for 4.4 months, compared with a 2.7 months inventory a year ago.. In a normal inventory situation, neither rapid price increases nor significant price declines should be expected in the short term, but current inventories suggest prices will continue to stabilize, with increases in median prices moving closer to the overall inflation rate. The month's supply of homes on the market increased in all communities except the Tri-Cities and Moses Lake areas.

Month's Supply of Housing by Price Range
March, 2007
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
Asotin	2.4	4.1	4.9	16.1	n/a	5.5	4.1
Benton/Franklin	5.7	4.7	5.2	5.8	27.3	5.3	7.2
Chelan/Douglas	1.1	2.6	1.7	4.7	18.8	3.5	2.7
Clark	2.9	2.2	3.1	8.4	18.3	7.1	4.0
Cowlitz	2.4	2.9	4.6	9.9	23.0	5.7	2.6
Ferry/Pend Oreille/Stevens	3.0	5.8	6.0	16.5	24.7	7.6	5.8
Grant	1.4	1.8	4.0	11.0	11.4	3.6	4.6
Grays Harbor	1.7	3.5	6.6	19.0	82.1	6.6	6.1
Island	0.0	3.8	2.7	6.1	12.8	6.0	4.3
Jefferson	2.2	8.2	6.1	9.2	15.9	9.4	5.3
King	1.2	2.3	1.3	2.1	3.7	2.7	1.8
Kitsap	0.0	2.8	3.0	4.9	10.1	5.0	2.8
Kittitas	n/a	2.3	4.7	8.1	50.8	7.5	3.5
Lewis	1.8	3.5	7.6	14.1	50.7	8.1	3.3
Mason	0.2	5.7	5.2	12.0	24.0	7.4	3.6
Okanogan	3.5	3.7	11.4	12.3	37.5	8.0	6.2
Pierce	1.2	2.5	3.0	4.9	11.7	4.9	2.4
San Juan	n/a	0.0	2.9	6.6	24.9	13.8	9.8

County	Under $80,000	$80,000 - $159,999	$160,000 - $249,999	$250,000 - $499,999	$500,000 and above	Total Market	Year ago
Skagit	4.6	2.0	2.7	5.2	13.5	4.9	3.3
Snohomish	7.3	1.7	1.8	3.4	6.2	3.8	1.8
Spokane	0.7	1.7	3.4	7.2	10.6	3.8	2.4
Thurston	0.8	2.2	2.4	5.7	14.1	4.6	2.7
Walla Walla	4.6	5.8	6.2	11.7	41.8	7.6	6.3
Whatcom	3.9	5.9	4.2	6.7	11.2	6.4	4.4
Whitman	0.4	5.8	4.4	8.5	n/a	5.5	4.8
Yakima	4.8	5.0	6.0	14.2	13.1	6.3	5.0
Statewide	**2.8**	**3.4**	**3.6**	**4.4**	**6.3**	**4.4**	**2.7**

The market remains tightest for homes selling for mid-range prices. Statewide there was an increasing month's supply moving across the price spectrum, with the increases in supply most pronounced at the higher price levels. This is consistent with expectations. Homes priced above $500,000 are in excess supply in most areas. However, a shortage of inventory even at high prices is especially pronounced in King County where even homes priced at half a million dollars or more would sustain the market for less than four months. Based on statewide data, the only price range that would be described as "balanced", rather than a "seller's market" is for very expensive homes.

Since inventory levels are increasing in most markets and the consensus is that sales activity is slowing, it is anticipated the month's supply statistics will continue to move toward balance and even a modest oversupply in the months ahead, reducing demand pressure on home prices and reaffirming the stabilization of the market suggested throughout this report. That, however, is a far cry from believing a "bubble has burst".