

SEATTLE WASHINGTON MARKET

The Seattle Metropolitan Area experienced an increase in employment over several years as the regional economic base, support services and low interest rates brought buyers into the marketplace. Microsoft, Boeing Aircraft, the Port of Seattle and several other international and national corporations and private investors that make Seattle home created strong economic conditions and in-migration into the region. With the shift in the housing industry and the financial markets, employment opportunities are declining. With many small businesses cutting back on employment and three major employers layoffs, the unemployment rate for Seattle-Bellevue-Tacoma increased from 4.3% in July 2008 to 8.7% in February 2009.

Between the first quarter 2004 and the summer 2007 the local housing industry experienced a limited supply of inventory in most communities creating a sellers' market for the region. Although the regional economy is relatively strong when compared to other areas of the nation, the housing industry shifted from seller to buyer market during the Summer/Fall 2007. Inventory throughout King County has increased over the past three years while sales activity has declined.

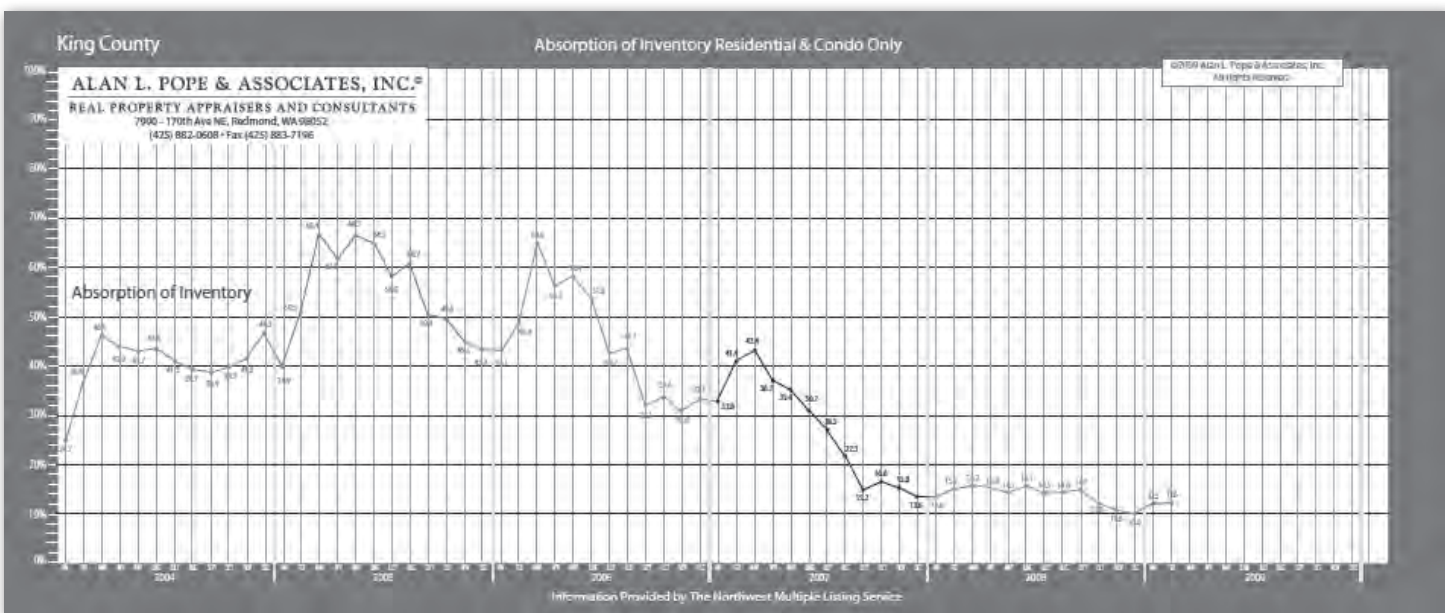
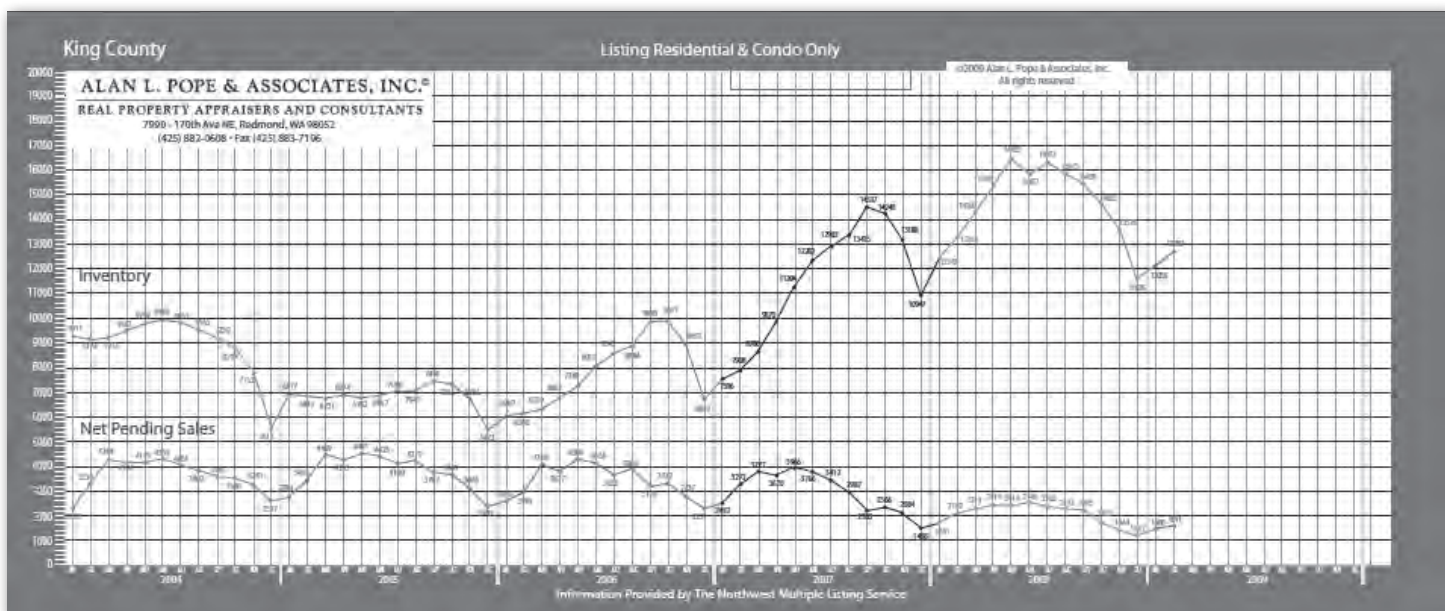
In a market where stability is indicated by an absorption rate at 25% month over month, the statistics show absorption rates on available inventory has not exceeded 17.0% over the past 19 months and was at 15.8% in March for King County and 15.1% for Snohomish County. While absorption rates have increased from their low at some 10% in December 2008, the data falls far below needed levels to support stability in the housing market.

The high end market, housing and condominiums above \$1,000,000 as reported in the Northwest Multiple Listing Service throughout the Puget Sound region, has seen inventories increase between March 2008 and March 2009 decline by some 7.0% while the number of pending sales in the same period declined by some 40%. The statistics indicate an absorption rate for \$1,000,000+ housing in March 2009 at 3.9%. While high end sales activity increased from its low in December 2008 of 2.5%, it is far below the height of the market in March 2007 when absorption rates on \$1,000,000+ home were reported at over 14%.

Most markets in the region transitioned from a seller's market to buyer's market in part due to sub-prime lending practices in August 2007 followed by the collapse of the banking industry in the fall 2008. Consumers have lost confidence in the housing market; buyers unwilling to make offers due to the perspective prices could continue to fall. Banking institutions are taking a conservative approach to lending, tightening loan requirements and removing many programs from their portfolios. Short sales and foreclosures dominate some markets and the media continues to report that the current market is depressed with little signs that it will transition to stability in the short term.

While inventory remains high, there is pent up demand for housing in the Seattle Metropolitan Area, many buyers sitting on the fence renting and waiting for the bottom. There are several excellent buys and those who wait too long will wish that they had entered the market and secured a purchase earlier. Property values increase or decline depending on neighborhood. With interest rates under 5% and the spring market ahead, a trend to stability may occur in the lower priced markets over a short period, say the next 3 to 5 months then growing inventory common to the first two plus quarters of the year will again slow the housing market. The high end market requires jumbo loan products for financing. The restrictive credit standards required by lenders include large down payments, increased post closing liquidity (cash reserves), and reduced debt service ratios. Lender inflexibility in providing loan products to the high end buyers is reducing the marketability and value for these homes.

SEATTLE WASHINGTON MARKET continued



For additional or more current information on the residential market in the Seattle area, visit www.rac.net and select "The RAC Report," or contact the following RAC member:

Alan L. Pope, SRA, CRP, Alan L. Pope & Associates, Inc.

Phone: (425) 882-0608, Ext. 101 ♦ Fax: (425) 883-7196 ♦ AlanPope@RAC.net ♦ www.alanpope.com