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SOUND HOUSING QUARTERLY

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Covering King, Snohomish, Pierce, Kitsap, Island, Thurston, and Skagit counties.

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Executive Summary

Spring has arrived and while things are still pretty slow out there, the Puget Sound real estate market is beginning to show some signs of life.

The national economic slowdown continued to hammer the Puget Sound, as job losses stacked up and some of our largest local employers announced thousands of layoffs. Actual closed home sales were at all-time lows throughout the quarter. Pending sales began to show some life in March, but it is too early to tell if this is the beginning of a recovery in housing market activity.

The banking crisis continued to drag down the national economy, while the government moved forward with various stimulus and bailout actions that amount to "efforts to save a sinking ship" (Yale Economist Dr. Robert J. Shiller at Seattle Pacific University, April 27 2009). Nationally there were no strong signs of an imminent recovery on the horizon in the first quarter, though the rate of economic decline did slow somewhat, and the stock market staged a rally in March that erased most of February's losses.

Home prices across the country continued to drop in the first quarter, with February's Case-Shiller 20-city composite index coming in 19% lower than a year earlier. In Seattle, prices fell slightly less—just 15% in the year.

Rumors of layoffs at Boeing and Microsoft in the fourth quarter 2008 became a reality in the first quarter 2009, as Microsoft announced the elimination of 5,000 jobs over the next year and a half, while Boeing indicated that it will lay off as many as 10,000 workers.

Washington's statewide unemployment rate exceeded the national average throughout Q1 and ending the quarter at 9.2%. The seven-county Puget Sound region continued to perform somewhat better, with a non-seasonally-adjusted rate of 8.9% in March.

Home prices in the first quarter turned more sharply negative than our forecast in the Q4 issue, but our market forecast for the following year still calls for a drop of another fifteen to twenty percent. With the amount that prices have dropped so far, it is likely that home sales will begin to see a recovery in Q2, barring any further extreme shocks to the local economy.

On the following pages you will find practical advice about how to best position yourself in today's real estate market, a closer inspection of broad-based economic factors and housing indices, detailed statistics for each of seven Puget Sound counties, and our forecast for the coming months. New to this issue, we have added tables below many of our charts that give you all the numbers behind the graph.

We are always interested in improving the quality of the information and analysis we provide, so please contact us if you have any suggestions or questions about this report. We can be reached through our website at HousingQuarterly.com or via email at Editor@HousingQuarterly.com.

County-Specific Conditions

Here's a snapshot of vital housing statistics for the seven Puget Sound counties we track:

	YOY Price (SFH)	YOY Sales Vol. (SFH)	Real Estate Heat Index	Affordability Index	Months of Supply (avg.)
King	-14.1%	-37.6%	7.0	106.5	7.0
Snohomish	-12.4%	-37.0%	6.4	124.2	7.6
Pierce	-10.4%	-22.6%	7.1	143.1	6.6
Kitsap	-12.3%	-21.0%	7.2	140.7	6.9
Thurston	-4.8%	-21.5%	11.0	140.4	5.2
Island	-17.0%	-27.7%	4.4	133.4	11.8
Skagit	-9.1%	-37.5%	5.0	127.4	11.0

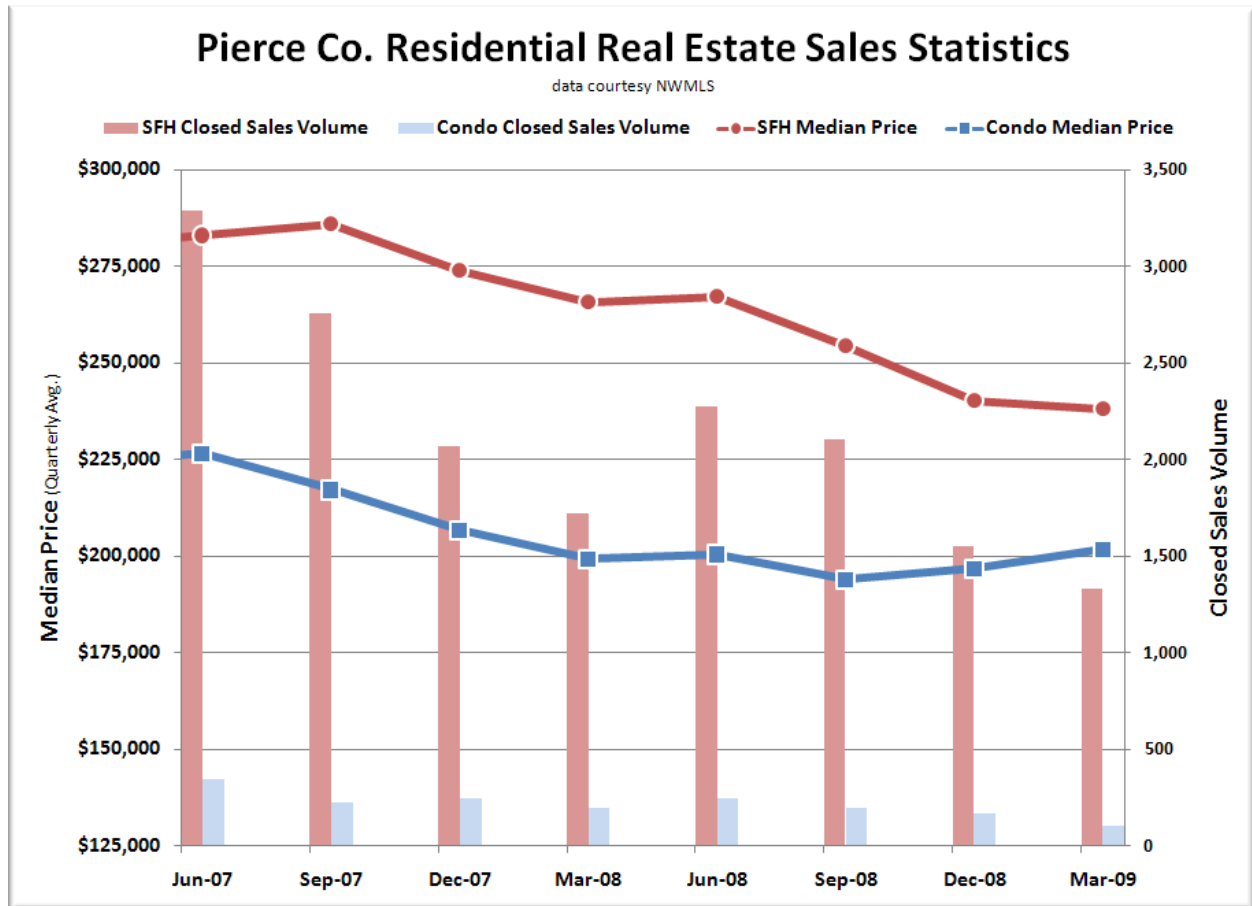
Thurston County yet again came out on top of the pack in the first quarter, with the smallest price declines, lowest months of supply, and highest heat index. The weakest counties were yet again the outlying Island and Skagit, each averaging nearly a full year's worth of homes sitting on the market.

Months of supply fell across the board from the fourth quarter as sales picked up heading into the usually busy spring season, but only Thurston entered "seller's market" territory below 6 months of supply. Keep in mind when gauging the months of supply data that the gap between pending sales (used to measure months of supply) and actual closed sales continues to widen (see page 33).

While months of supply showed a slight improvement in Q1, the rate of decline in home prices increased from Q4, as did the rate of decline in completed closed sales. Falling prices are likely to begin to spur some increased sales activity across the Sound, but as of the end of Q1, such an increase has been visible only in the pending sales data, which is not converting reliably to closed sales.

Read on for a detailed breakdown of price and sales statistics for each of the seven Puget Sound counties in our coverage area.

Pierce



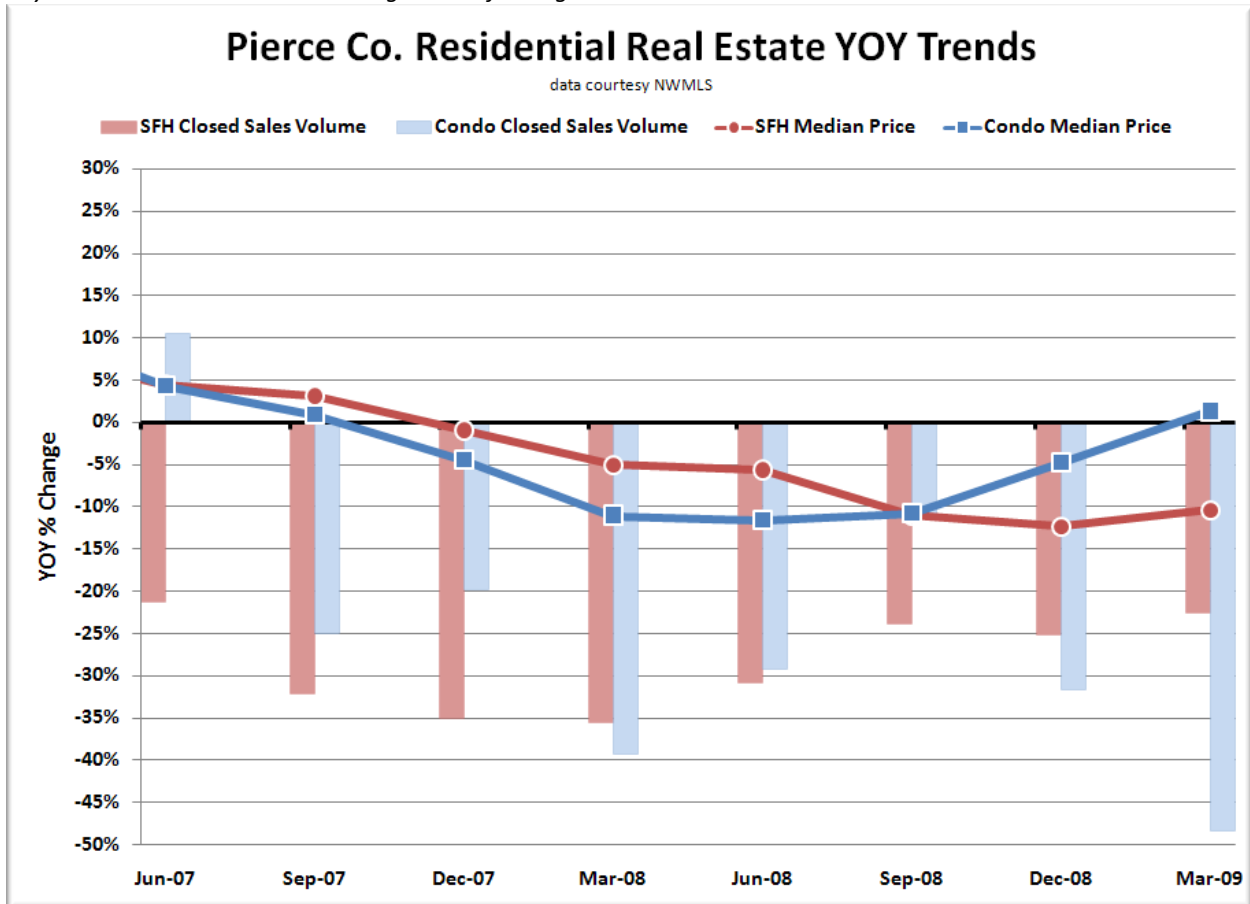
Pierce	07-Q2	07-Q3	07-Q4	08-Q1	08-Q2	08-Q3	08-Q4	09-Q1
SFH Price	\$282,917	\$285,817	\$273,762	\$265,583	\$267,000	\$254,258	\$240,084	\$238,050
SFH Sales	3,291	2,760	2,066	1,716	2,276	2,101	1,546	1,329
Condo Price	\$226,497	\$217,125	\$206,542	\$199,142	\$200,273	\$193,747	\$196,650	\$201,665
Condo Sales	338	219	243	190	239	194	166	98

The decline in Pierce County single-family prices moderated somewhat in the first quarter, while condo prices continued to increase.

Pierce County's current SFH median price sits almost exactly halfway between the Q2 and Q3 2005 levels, while the condo median came in close to Q1 2006.

Note: Unfortunately, the condo price data is suspect this quarter, because the closed sales volume for the quarter fell below our 50 sales per month threshold for the results to be considered statistically sound, so take the condo price data with a grain of salt.

Due to the highly seasonal nature of the real estate market, year-over-year comparisons are the most informative way to look at the direction and magnitude of change in real estate statistics.



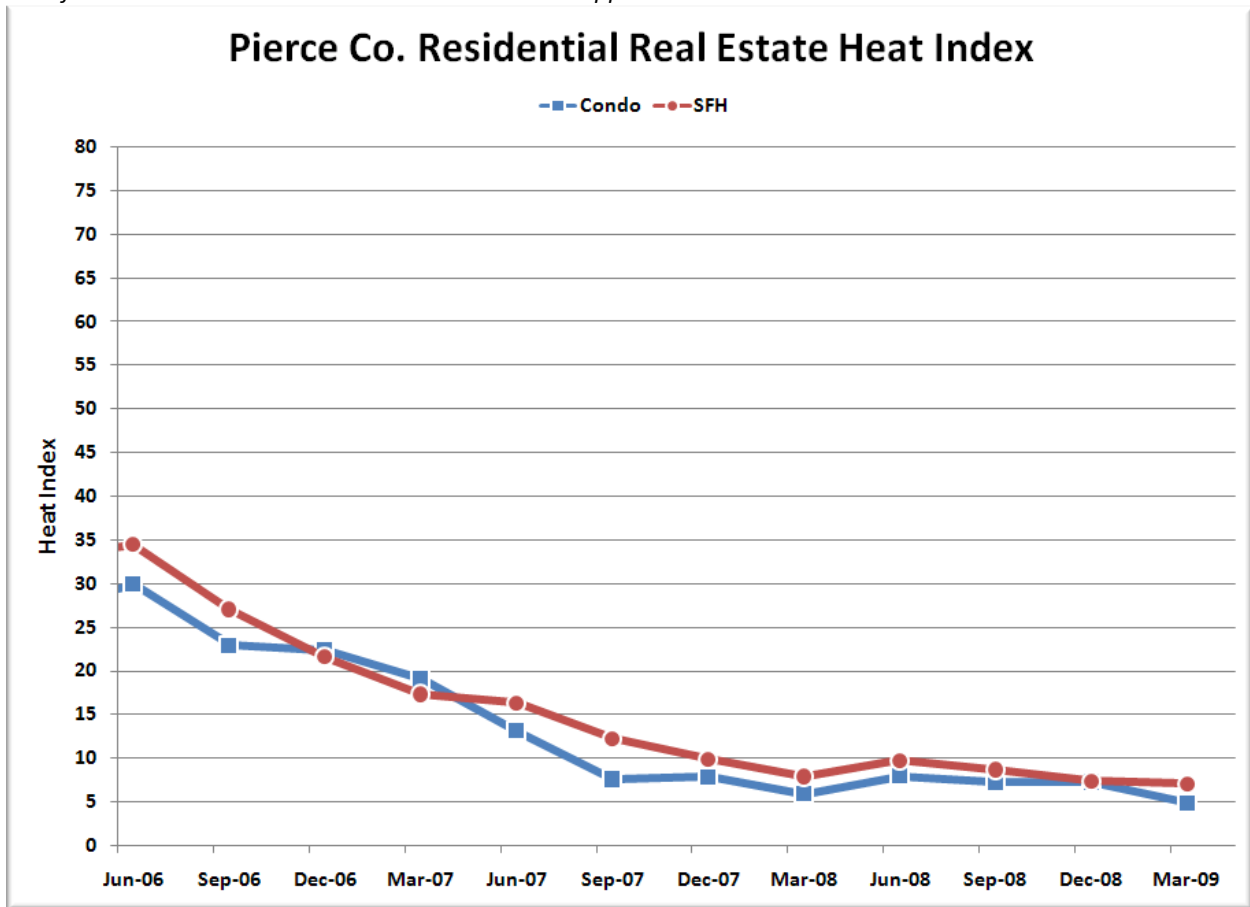
Pierce	07-Q2	07-Q3	07-Q4	08-Q1	08-Q2	08-Q3	08-Q4	09-Q1
SFH Price	4.4%	3.0%	-1.0%	-5.1%	-5.6%	-11.0%	-12.3%	-10.4%
SFH Sales	-21.3%	-32.1%	-35.1%	-35.6%	-30.8%	-23.9%	-25.2%	-22.6%
Condo Price	4.3%	0.9%	-4.5%	-11.0%	-11.6%	-10.8%	-4.8%	1.3%
Condo Sales	10.5%	-25.0%	-19.8%	-39.3%	-29.3%	-11.4%	-31.7%	-48.4%

Pierce County's condo median appeared to climb into positive year-over-year territory in the first quarter at +1.3% (see note on previous page), while the decline in SFH prices moderated somewhat, but still stayed in the double-digits at -10.4%.

Closed sales volumes for condos were strongly negative in the first quarter, with a nearly 50% drop from 2008. SFH sales were also down from a year ago, but by "only" 20%.

Note that this data does not include new condos or SFHs that are sold directly through the builder without going through the MLS.

For information about the Real Estate Heat Index see Appendix A.

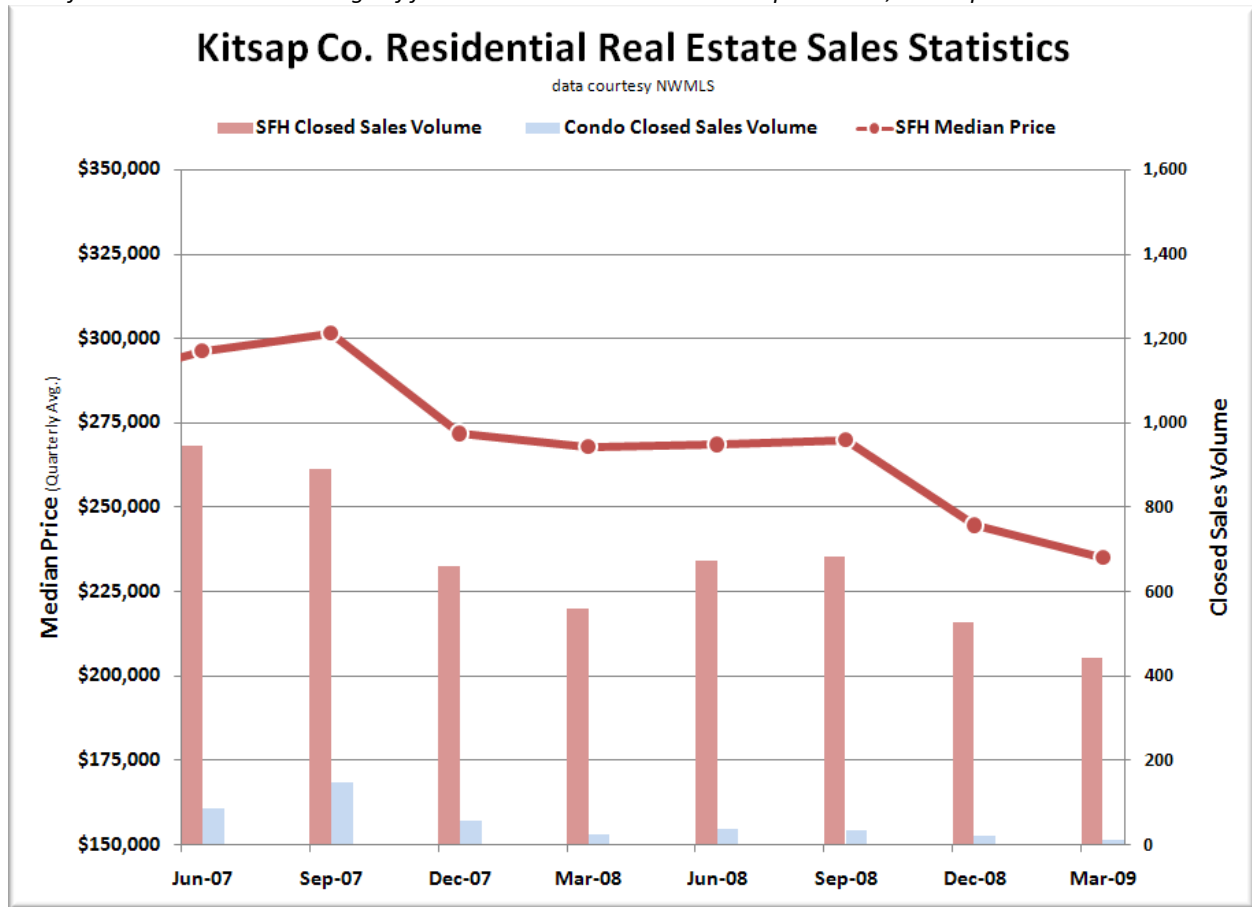


Pierce	06-Q2	06-Q3	06-Q4	07-Q1	07-Q2	07-Q3	07-Q4	08-Q1	08-Q2	08-Q3	08-Q4	09-Q1
SFH REHI	34.4	27.0	21.6	17.4	16.3	12.2	9.9	7.9	9.7	8.7	7.4	7.1
Condo REHI	29.9	22.9	22.4	19.0	13.1	7.5	7.8	5.9	7.9	7.2	7.2	4.8

Despite the apparent increase in prices, Pierce County's condo REHI dropped to a new low in Q1, while the SFH REHI fell just slightly also hitting a new low. As we mentioned last quarter, it currently seems likely that the REHI will continue to bounce along this bottom for at least a few more quarters.

Kitsap

Note: for counties with an average of fewer than 50 closed condo sales per month, condo prices are not charted.



Kitsap	07-Q2	07-Q3	07-Q4	08-Q1	08-Q2	08-Q3	08-Q4	09-Q1
SFH Price	\$296,050	\$301,349	\$271,591	\$267,905	\$268,396	\$269,789	\$244,500	\$235,050
SFH Sales	944	889	658	557	672	683	525	440
Condo Sales	85	147	55	22	37	33	18	11

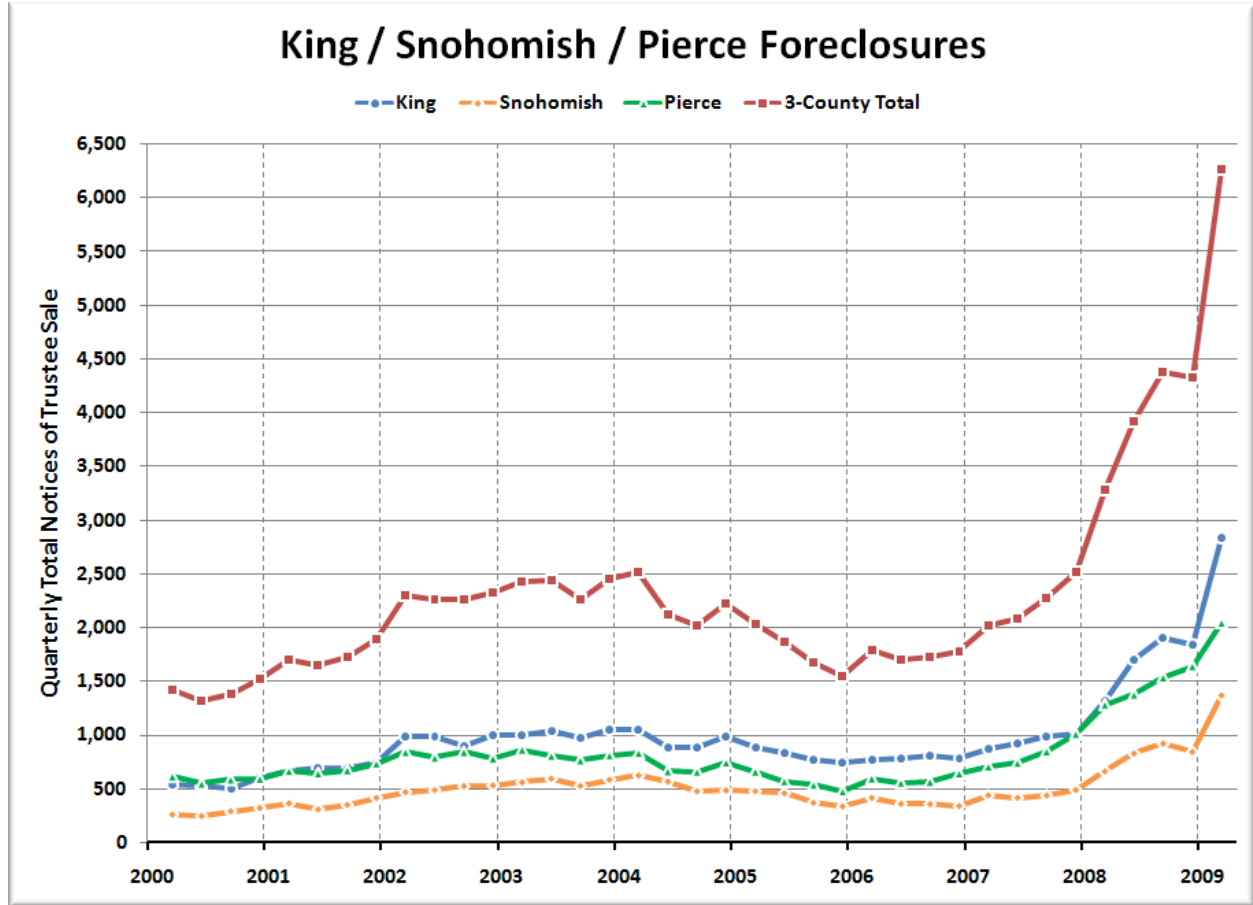
Kitsap SFH prices fell again in the first quarter, falling just under \$10,000, although the drop was not as steep as Q4, when it dropped over \$25,000 in three months.

The median SFH price in Kitsap has now retreated to halfway between Q1 and Q2 2005, and has given up a total of over \$66,000 (22%) since the Q3 2007 peak.

Not surprisingly, the number of closed sales in Kitsap dropped to yet another new low in the first quarter, just as they did elsewhere around the sound.

Foreclosures across the Puget Sound picked up steam in the first quarter, with broad-based foreclosure rates in all but the closest-in neighborhoods reaching levels as high as one in every three hundred households. Visit HotPads.com and click "foreclosures" for a fully interactive heat map.

King / Snohomish / Pierce Notice of Trustee Sale Chart



Notices of Trustee Sale (the 90-day notice sent to delinquent borrowers that their home will be repossessed) came roaring back in the 3-county central Puget Sound region in the first quarter, nearly doubling the level seen in Q1 2008.

King County saw 2,842 NTS in the quarter, Pierce had 2,049, and Snohomish had 1,376.

In the Q4 issue we speculated that the dip in foreclosures was likely due to the Fannie Mae and Freddie Mac foreclosure moratorium in November and December. It would appear that this was an accurate assessment, as the overall trend line for local foreclosures picked up right where it left off once the moratorium was lifted.

As for the question we asked in the last issue regarding whether recent government actions would reduce foreclosures, or merely delay them, the answer would seem to be the latter.