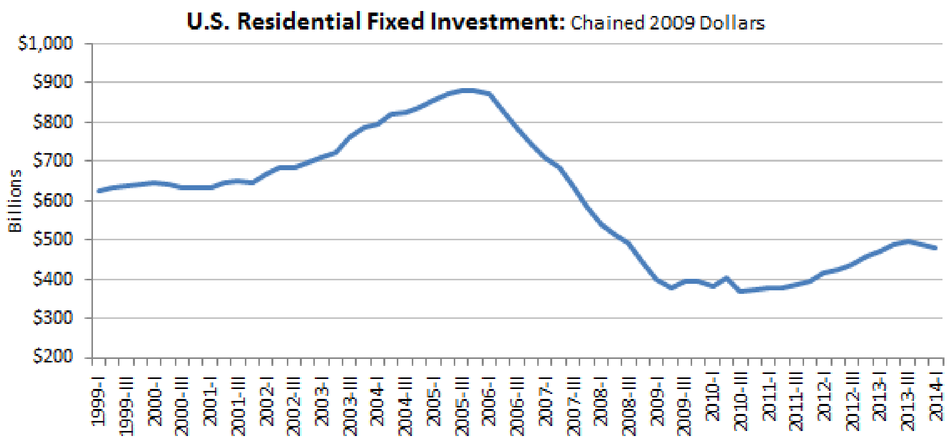
Office of Financial Management, Forecasting Division:

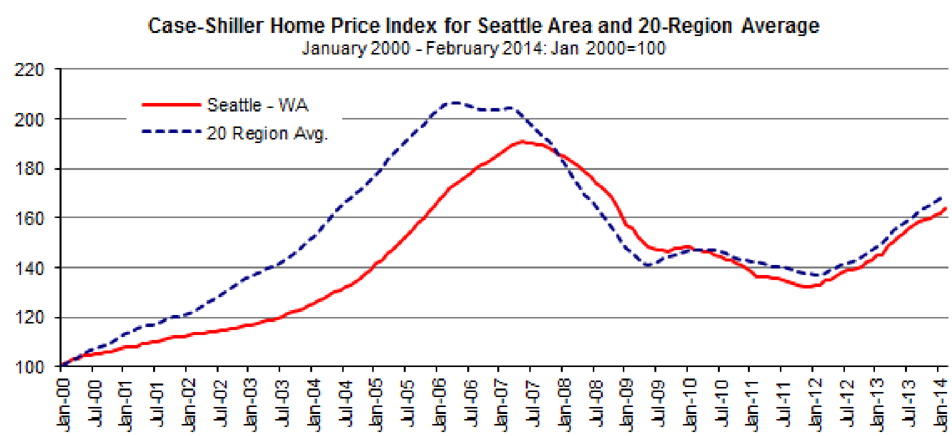
Housing Market Overview: May 2014

The national and local housing markets have been struggling to regain footing following the deflation of the housing bubble.



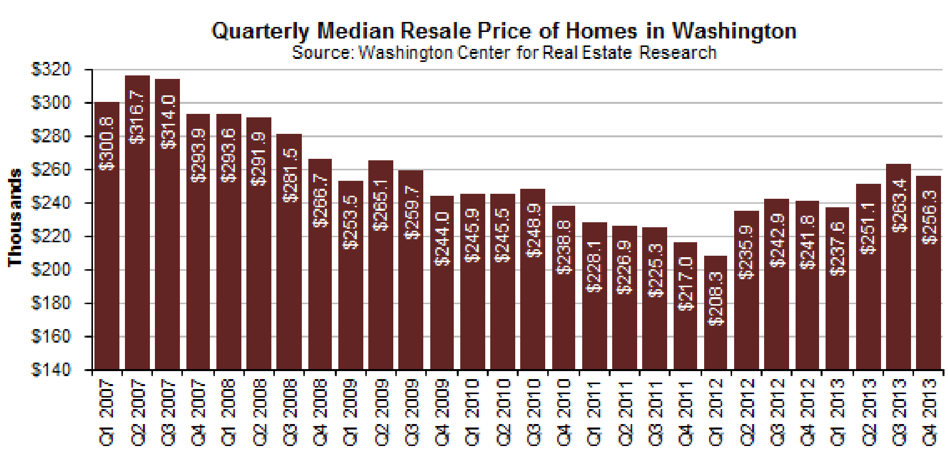
This is apparent when examining the national level of fixed residential investment. One could argue that the level of investment between 2001 and 2005 was unrealistic. But the current level, though well above its low-point, is still about $160 billion below what may be considered "normal".

Housing prices surged and plunged in almost every regional market across the U.S.



Seattle area prices lagged the nation by about 12 months on the up-side, though the overall pattern was similar when prices fell. Washington's prices peaked in May 2007, and troughed in November 2011. Prices are up about 24 percent from their low-point, though are still 14 percent below peak levels.

Quarterly median resale prices across Washington mirrored those in the Seattle area.



Median prices fell from $316,700 in the 2nd quarter of 2007, to $208,300 in the 1st quarter of 2012. Prices have since edged higher and, as of the 4th quarter of 2013, were $256,300.

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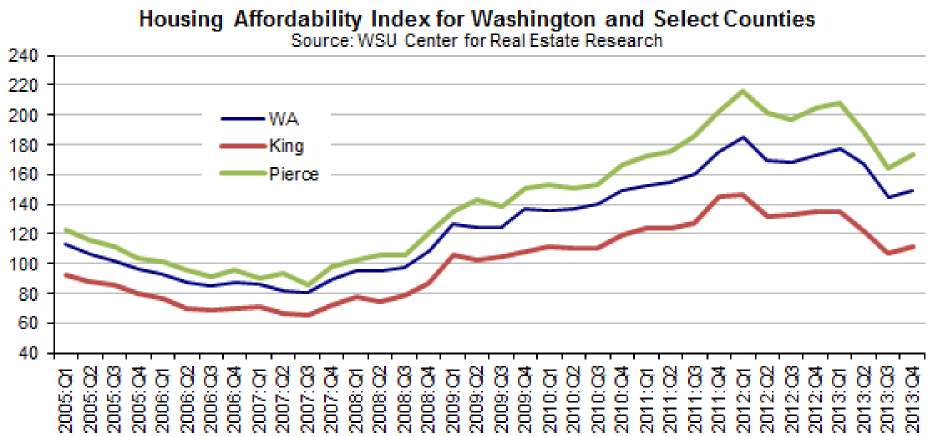
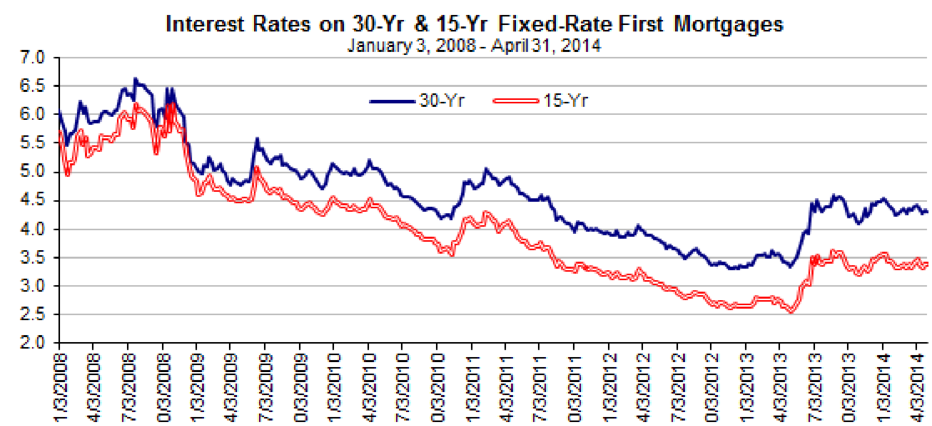
At the zenith of the housing bubble, there were concerns that many were being priced out of homeownership.



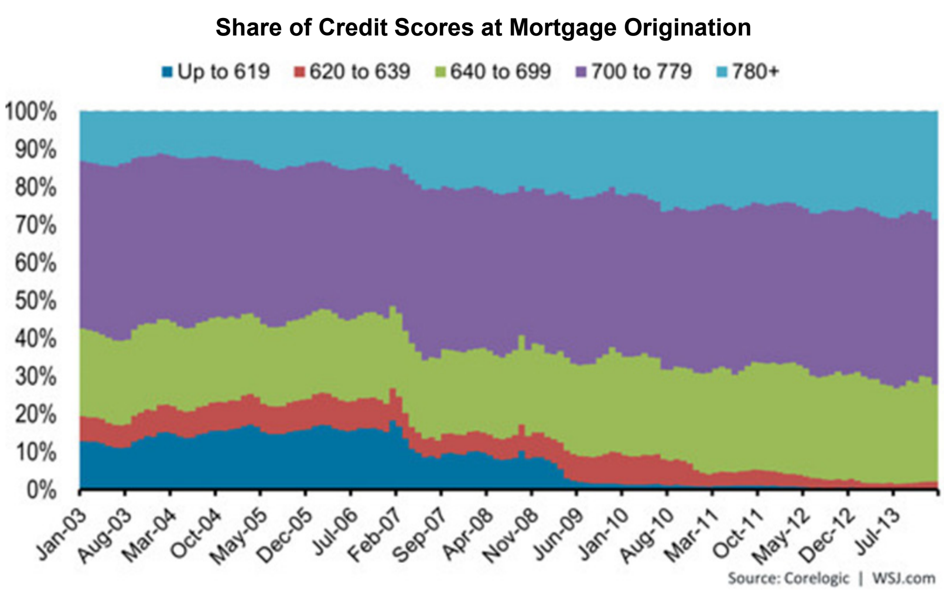
When the bubble burst and prices fell, affordability increased. Even in high-priced King County, those making the median income could easily afford the median-priced home. As prices rebound, the issue of affordability may re-emerge, though that is not currently the case.

One of the methods to stabilize housing prices was through lower interest rates.



The Federal Reserve sale of $667 billion in shorter-term securities, AKA "Operation Twist", was designed to drive down longer-term interest rates, in particular on 10-year T-bills. The 10-year T-bill is the foundation of interest rates offered by mortgage lenders.

Though interest rates are low and housing prices have stabilized, other barriers exist.



A portion of the blame for the housing bubble was laid on the issuance of sub-prime mortgage loans, loans to folks with credit scores that would have normally kept them from qualifying. The latest regulatory intervention has resulted in the need for much higher credit standards for mortgage applicants thus, for all practical purposes, eliminating the sub-prime loan.

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A serious consequence of the burst housing bubble was the explosion of folks defaulting on their loans and having their homes foreclosed

Nation, State, and Region Forecloser Overview

	Foreclosure Inventory		Serious Delinquency
	Mar-14	Mar-13	Mar-14
United States	1.8%	2.8%	4.7%
Washington State	1.7%	2.4%	4.3%
Seattle-Bellevue-Everett	1.5%	2.3%	3.6%

The level of foreclosures and serious delinquencies has improved markedly. While the current rates are less than half of their peaks, they are still about double what would be considered "normal".

For homeowners who were able to maintain payments on recent loans, many found themselves under-water—owing more than their homes were worth.

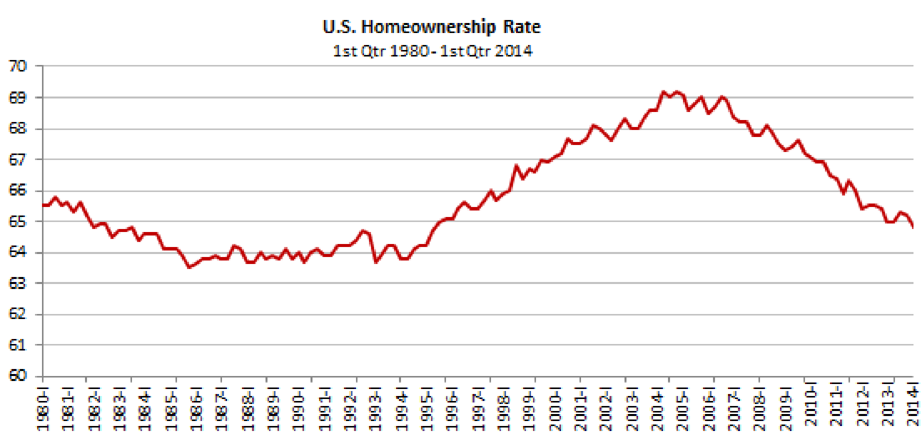
4th Quarter 2013 Zillow Negative Equity Overview

	Rate	Decline From Peak	Effective Rate*
United States	19.4%	27.5%	37.6%
Washington State	20.3%	19.3%	40.4%
Seattle-Bellevue-Everett	20.2%	18.4%	38.9%

* Includes those with less than 20% equity.

At its worst, almost half of outstanding mortgages in the nation were underwater and nearly 40 percent of mortgages in Washington and the Seattle area. With the rebound in home values, those rates have been pared significantly.

The severity of the fallout from the housing downturn and surge in foreclosures has resulted in a dramatic drop in homeownership across the U.S.



The homeownership rate in the U.S. began a long up-trend in 1995, and peaked at 69.2 percent in mid-2004. Since then the decline has been as spectacular as the increase. As of the first quarter of 2014 the homeownership rate was 64.8 percent.

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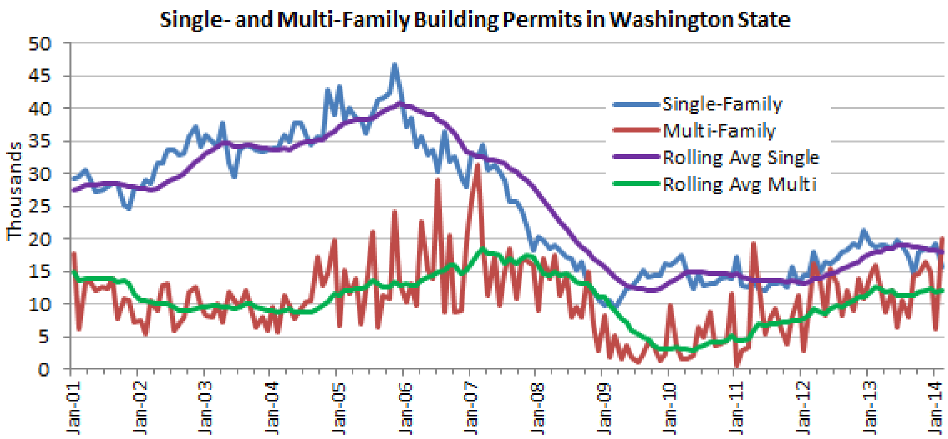
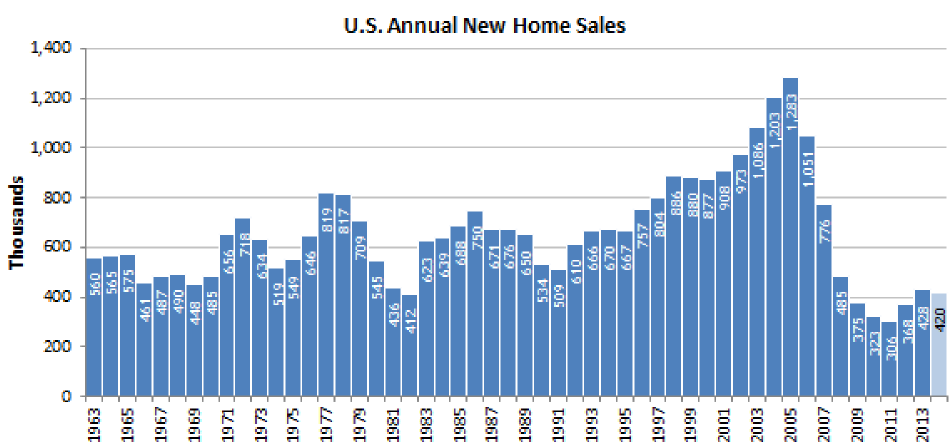
Over-building, stagnant incomes, and more stringent lending standards have stifled demand for new homes.



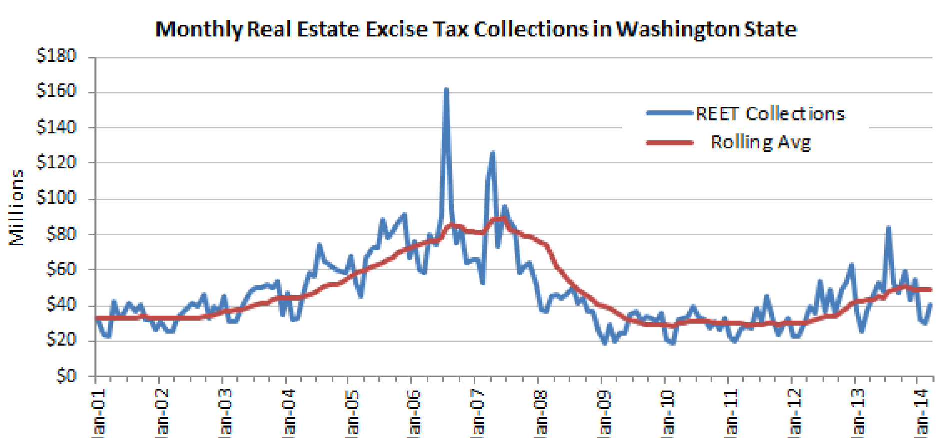
Demand for single-family homes remains muted, with trends over the past year effectively flat. Demand for multi-family structures, i.e. rental apartments, has been spurred by the current difficulty of many to purchase a home.

With the slow absorption of new houses from the bubble (some being rented rather than sold) the pace of new home sales has remained slow.



Both new home sales and existing home sales have been historically slow during this economic expansion. Currently, new home sales are on a 420,000 annual pace—well below the 600-700 thousand typical for an economic upturn.

As a result of the slow housing market, real estate excise tax collections remain relatively soft.



In calendar year 2007, REET collections averaged close to $78 million per month. In the 12 months ending this March REET collections have averaged $48 million per month.