

2010 REAL ESTATE OUTLOOK Getting Back to Normal?

The real estate market has been on a crazy ride over the past decade, with dramatic booms and busts. However, many indicators seem to show that 2010 could be the first year in a, dare we say, "normal" market cycle.

Home Valuations

In spite of wild housing valuation swings over the past several years, current valuations in King County are 10-20 percent higher than 2004 levels, depending on specific locations and price points.

Affordability

As you can see in the graph to the right, housing affordability is approaching a normal level. Though early 2009 saw historically high affordability due to a market overcorrection, the last two quarters of the year and projections for 2010 show we are headed toward more normal territory.

Transactions: The 5 Percent Rule

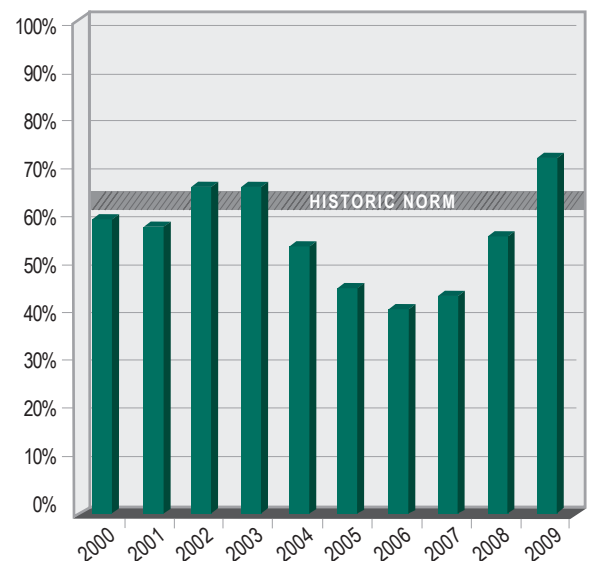
A study by REAL Trends found that, on average, 5 percent of households turn over each year. Boom years see a few more, bust years see a few less, but about 5 percent of Americans buy and/or sell a home each year. A recent study estimates that 5 percent of Americans plan to buy or sell their home in 2010, which means 2010 should be closer to an average year for home sales.

Absorption rates

Absorption rates—a percentage that shows the relationship between pending sales and inventory—were moving toward stabilized levels of 20-30 percent during the last few months of 2009. In general, rates above 30 percent signal a sellers' market, while rates below 20 percent means a buyers' market. Projections for the early months of 2010 seem to keep us on this balanced rate of sales.

The general consensus is that we are now at the tail end of a recession, and we still have some residual economic factors to work through. But near historic low interest rates, great affordability, and home buyer tax credits should help push us through the wake of the past few years' ups and downs into a more stable market.

AFFORDABILITY WITHIN RANGE OF HISTORIC NORM



Note: Affordability is defined as the percentage of new and existing homes that are affordable to families earning the national median income.
Source: NAHB Housing Opportunity Index

30 YR MORTGAGE INTEREST RATES

5.3%



DEC 08

VS

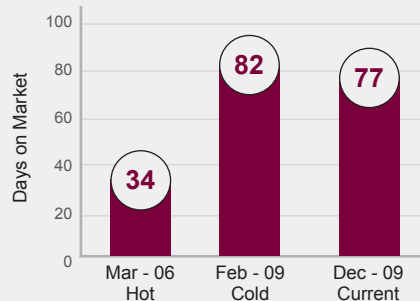
4.9%



DEC 09

Source: FreddieMac

DAYS ON MARKET



Note: Median Price, Resale Only.
Source: NWMLS/Trendgraphix

PENDING SALES

DECEMBER 2009



79.0%

DECEMBER 2008

Note: Residential & Condos; sharp increase may be due to home buyer tax credits.
Source: NWMLS/Trendgraphix

