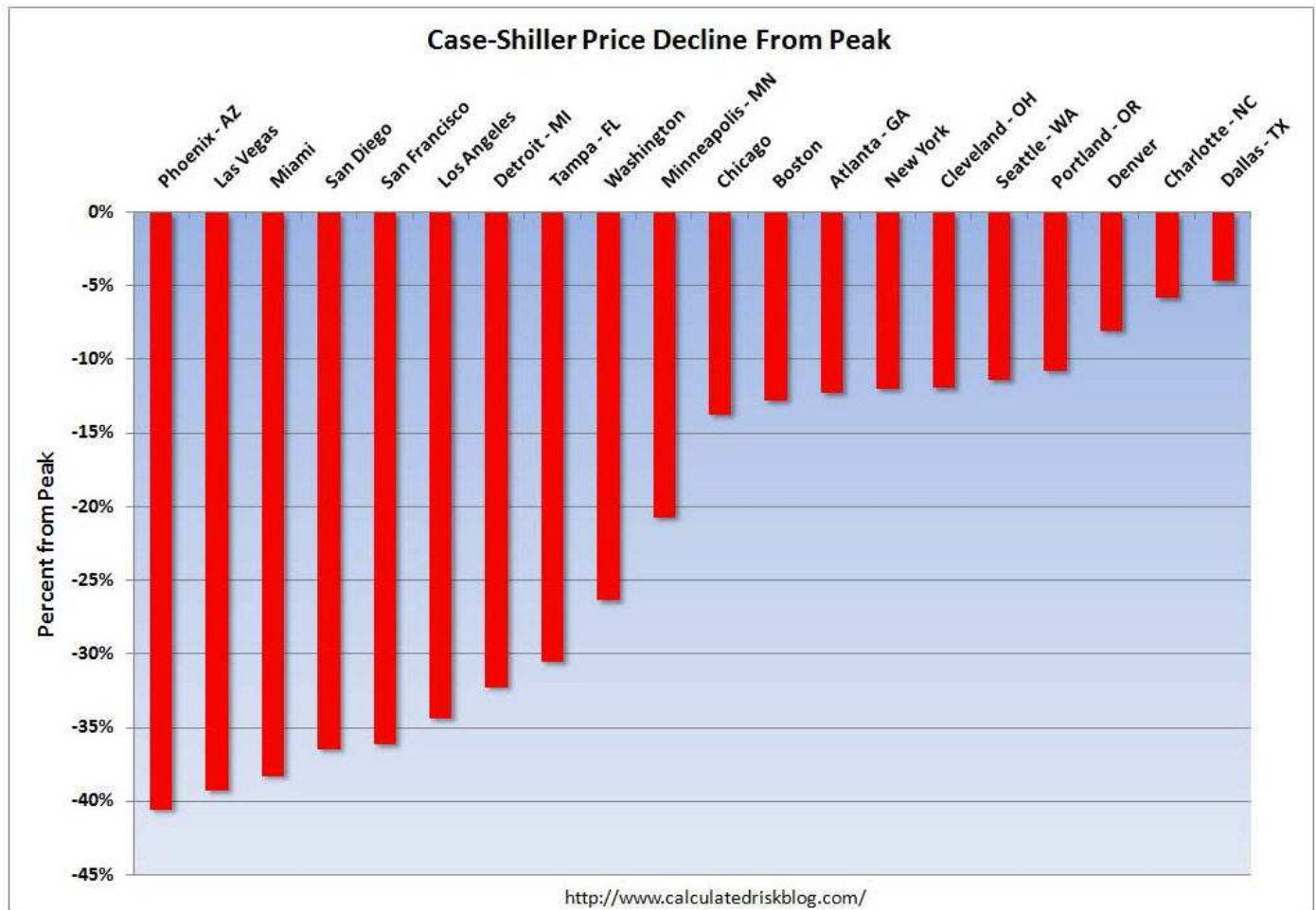


2009 REAL ESTATE FORECAST

Because forecasting the direction of the market is vital in pricing homes and advising buyers, a great deal of energy is spent trying to accurately forecast the coming year. So how did we do in 2008?

In 2007 we forecast a 3% decline in house prices for 2008. Several months later we revised our forecast downward calling for a 10% decline. It appears once the final statistics are in that 2008 will register a 10-12% decline for the Seattle region. So we would give ourselves a B plus.



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So that brings us to 2009. We believe that the real estate market will suffer through another bleak year. The location of the property will be the single largest determiner of the level of price declines. Properties closer to the city core could see a 5% decrease while properties farther out will experience a 10% decline.

Several major factors have led us to this forecast:

Number one: the employment situation is deteriorating. No jobs equal no income and no income makes buying homes difficult. To review unemployment you can visit the [bureau of labor statistics](#). Please pay special attention to the U6 figures which represent a truer picture of unemployment. The U6 figure is now 13.5% unemployment. We expect unemployment based on U6 to approach 20% We do not expect a mid-year recovery and expect this recession to be long and protracted.

Table A-12. Alternative measures of labor underutilization

HOUSEHOLD DATA		HOUSEHOLD DATA								
Table A-12. Alternative measures of labor underutilization										
(Percent)										
Measure	Not seasonally adjusted					Seasonally adjusted				
	Dec. 2007	Nov. 2008	Dec. 2008	Dec. 2007	Aug. 2008	Sept. 2008	Oct. 2008	Nov. 2008	Dec. 2008	
U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.....	1.6	2.5	2.8	1.6	2.2	2.4	2.7	2.6	2.9	
U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force....	2.6	3.7	4.5	2.5	3.2	3.5	3.8	4.0	4.2	
U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate).....	4.8	6.5	7.1	4.9	6.2	6.2	6.6	6.8	7.2	
U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers.....	5.0	6.8	7.5	5.1	6.4	6.5	6.9	7.1	7.6	
U-5 Total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers.....	5.6	7.6	8.3	5.7	7.2	7.2	7.6	7.9	8.3	
U-6 Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers..	8.7	12.2	13.5	8.7	10.9	11.2	12.0	12.6	13.5	

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule. For more information, see "BLS introduces new range of alternative unemployment measures," in the October 1995 issue of the Monthly Labor Review. Updated population controls are introduced annually with the release of January data. Seasonally adjusted household data have been revised to reflect updated seasonal adjustment factors.

NUMBER TWO: Household wealth is declining at an unprecedented rate . People are looking to save money and purchasing a car or house will be less impulsive and more deliberate. This plunge in household net worth is virtually unprecedented and the lingering impact this is going to exert on household savings and spending patterns is going to be the big story of 2009. What the decline in asset values means is that households, which have already begun the process of saving more out of current income, will intensify those efforts – especially among the boomers who are nearing retirement age.

Chart 1: Unprecedented wealth destruction

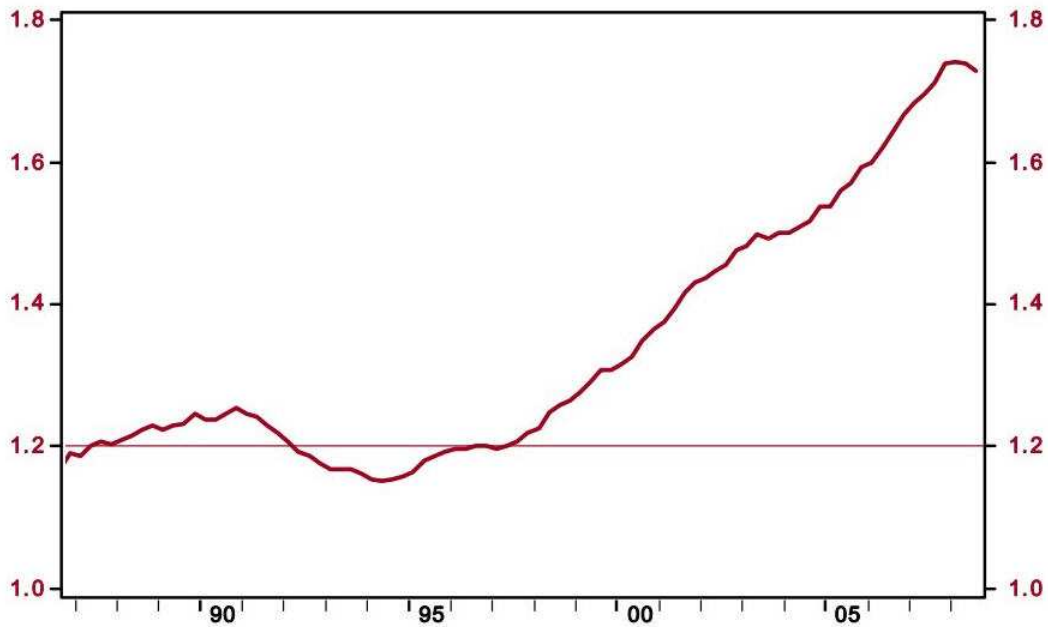


Source: Haver Analytics, Merrill Lynch

Number 3: Excessive inventory of homes. During the peak of the market we had a two month supply of homes. We are currently around eight months worth of supply. Until the supply of homes diminishes, housing prices will stay flat or fall. In the end it's all about "supply and demand."

We would expect any recovery to occur no sooner than the second quarter of 2010. The amount of debt that is deleveraging is staggering, and only time will cure this problem.

Chart 2: Private sector debt to GDP ratio



Source: Haver Analytics, Merrill Lynch

Any stimulus from the government will be of minimal help and at best will only soften the blow. It is our belief that our country is entering a new era; an age of frugality in which people will live within their means. This new mindset may have a profound effect on real estate for decades to come.

We acknowledge that this report is not a "feel good forecast". This forecast is meant to help sellers price their properties in accordance with market conditions, as well as assist buyers in making prudent decisions. In the event the market stabilizes and starts to rebound we will amend our forecast to reflect these changes.

Thanks for reading our report!

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