John L. Scott
REAL ESTATE

Why Now Is A Smart Time To Buy

Courtesy of John L. Scott
Current as of January 2008

Your Trusted Real Estate Resource

John L. Scott
REAL ESTATE

There is no question that we are coming off a frenzied market and entering a new housing cycle. We've been getting lots of questions from people who are wondering:

Is it a safe time to buy a home?
What if home prices drop after I buy?
Should I worry about securing a mortgage with all the talk about subprime loans and foreclosures?

This white paper, provided courtesy of John L. Scott Real Estate, is an objective assessment of the housing market as it stands at the end of 2007.

For more than 75 years, John L. Scott Residential Specialists have helped their clients find the right home at the right price and at the right time. They are happy to help you make the right choice in today's market.

If you have any further questions about buying or selling a home, your John L. Scott Real Estate Specialist will be more than happy to answer your questions.

Thank you for choosing to work with John L. Scott Real Estate.

Sincerely,

J. Lennox Scott

J. Lennox Scott, Chairman & CEO

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2007 is still among the highest years on record, with numbers of sales for both 2007 and 2008 projected to be even higher than the levels seen in 2002.

Considering all of the negative press the housing market received in late 2007, it's more important than ever for buyers to separate fact from fiction when deciding on a time to buy a home. This document is intended to help home buyers assess the facts of the real estate market objectively.

ABOUT INVENTORY

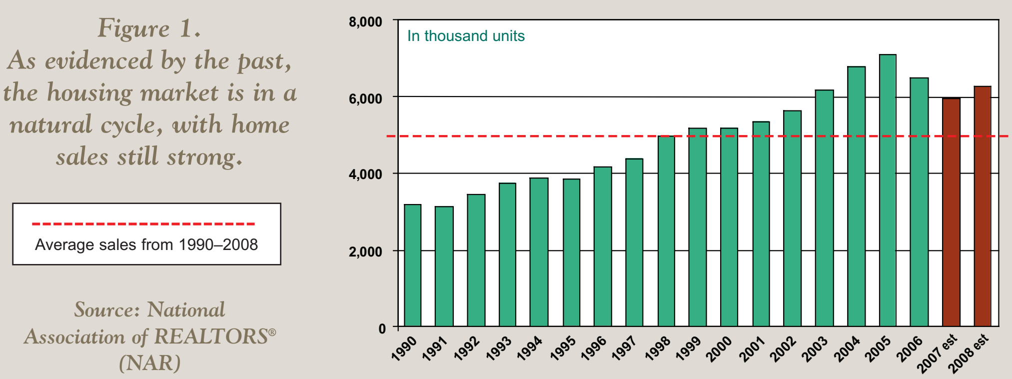
▶ FACT: The housing market is undergoing a natural cyclical correction.

It's impossible to ignore the ongoing news surrounding the downturn of the housing cycle. The recent "housing boom," which lasted from 2001 to 2005, was caused by low interest rates and a rapid increase in property valuations, resulting in high numbers of renters opting to buy. Three factors caused this decade's housing boom to spiral upwards: 1) a run-up in home price valuations that spurred a high sense of urgency in home buying and selling; 2) poor lending practices, which caused many homebuyers to secure loans that they ultimately couldn't afford over the long term; and 3) speculative purchases of homes also increased, with buyers investing in real estate with the hope of a quick return-on-investment.

Like the dot com bust, the housing market has begun to correct itself after a number of years of unwise purchasing, but unlike what the media would have us believe, a correction in the housing market doesn't equate to a crash. Unfortunately, the ongoing negative news about the troubled areas in the U.S. has caused a ripple effect, with home buyers and sellers on a national level exercising caution before making a decision. This has caused an overall slowdown in the marketplace. The National Association of REALTOR®'s Chief Economist, Lawrence Yun projects that nationally, the "median existing-home price will drop about 1.7 percent this year." Yun goes on to explain that "This is a small, minor adjustment after a strong run-up in housing prices."

True, the number of homes sold in 2007 will have dropped from the year before, but 2007 is still among the highest years on record, with numbers of sales for both 2007 and 2008 projected to be even higher than the levels seen in 2002. (Figure 1)

Figure 1. As evidenced by the past, the housing market is in a natural cycle, with home sales still strong.



Source: National Association of REALTORS® (NAR)

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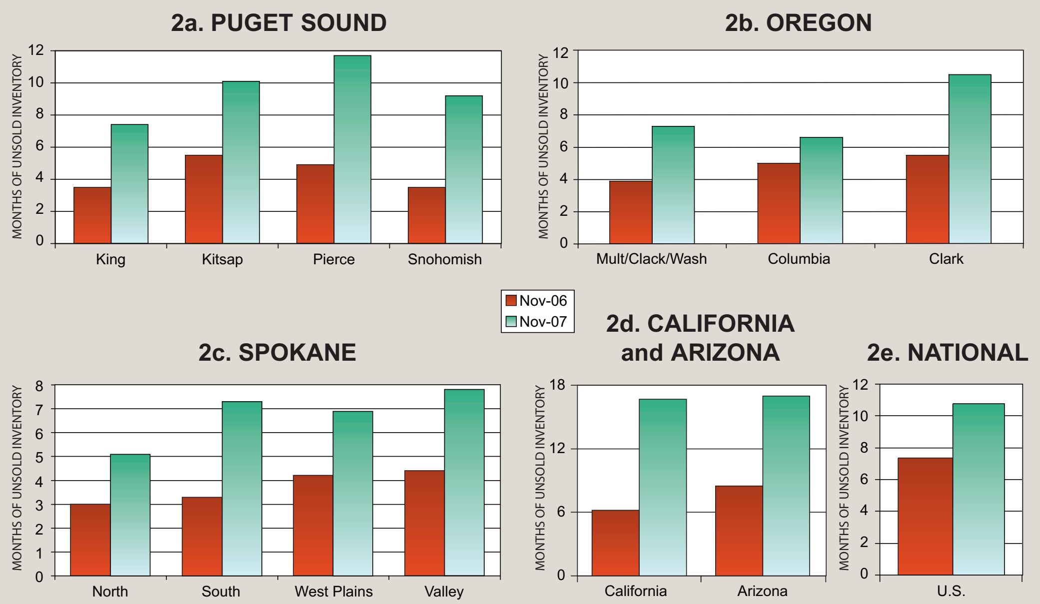
However, with homes taking longer to sell, the number of homes on the market has grown. In markets like California and Arizona where homes are taking much longer to sell than the eleven month national average, this has caused a glut in the marketplace. (Figure 2d, 2e) In the Pacific Northwest, where the inventory of homes on the market ranges from 7 to 10.5 months as of November, 2007. This equates to good news for buyers who have more homes at more price ranges from which to choose. (Figure 2a, 2b, 2c)

Figure 2. Unsold inventory in the local market is up which is good news for buyers who now have even more properties from which to choose.
Sources: Trendgraphix, NAR, CAR and ARMLS. November 2006 & November 2007 statistics



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ABOUT MORTGAGES

▶ FACT: Low mortgage rates give buyers more house for their dollar.

With the 30 year fixed rate hovering between six and seven percent—a 45-year low—qualified buyers continue to have access to incredibly low interest rates. (Figure 3) This means that although housing prices have risen, monthly mortgage payments remain reasonable for those who look at real estate as a long-term investment. For example, today if a buyer secured a 6.5 percent interest rate on a 30 year fixed loan for a $300,000 home (with no money down), the monthly mortgage payment would be $1,896.20. In 1991, the same monthly mortgage payment would have bought a house worth only $230,492 when mortgage rates were 9.25 percent. In 1982, when the 30-year fixed rate was 14.6 percent, the same payment would have bought a house worth only $151,657. (Figure 4)

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Interest rates are at historic 45-year lows, and there are still plenty of loans available for qualified buyers.

Figure 3. Interest rates are at historic 45-year lows, and there are still plenty of loans available for qualified buyers. *Source: Freddie Mac*

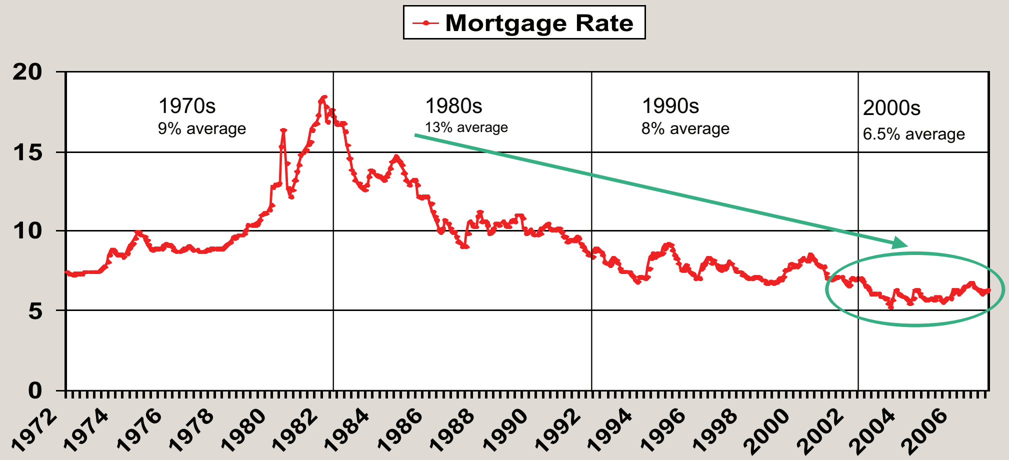


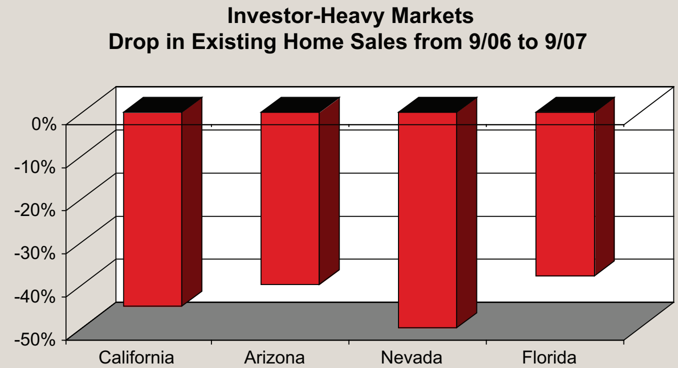
Figure 4. Today's mortgage rates give buyers more house for their money.
Source: Response Mortgage

YEAR	MORTGAGE RATE	HOME PRICE	MONTHLY PAYMENT
2007	6.5%	$300,000	$1,896.20
1991	9.25%	$230,492	$1,896.20
1982	14.6%	$151,657	$1,896.20

▶ FACT: Heavy speculation and overbuilding result in an increase in foreclosures when prices go down.

The media has been focusing on the hardest hit areas of the country that have seen a dramatic downturn in the market; among them, California, Nevada, Florida and Arizona. Over the past five years, these markets have experienced an abundance of new housing, a rise in investment properties (Figure 5) and a rise in prices that was high above the national average.

Figure 5. California, Arizona, Nevada and Florida saw many investors buying on speculation.
Sources: DataQuick Information Systems and Florida Association of REALTORS®



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Now that home prices are starting to drop and stabilize, the areas that went through a building frenzy and experienced the largest price increases are suffering a heavy devaluation in home prices, which in turn has caused homeowners to default on loans. (Figure 6) Those suffering the most in California, Nevada and Florida are far above the national average of foreclosure with one out of every 325, 152 and 282 homes in foreclosure, respectively. (Figure 7) Washington, Oregon and Idaho are well below the national average of one in every 617 homes in foreclosures because fewer homebuyers in the Pacific Northwest opted for subprime mortgages and because home values have continued to steadily appreciate. Washington has seen one in 1072 homes in foreclosure, and Oregon and Idaho have one in 1275 and 893, respectively.

Washington, Oregon and Idaho are well below the national average of one in every 617 homes in foreclosure because fewer homebuyers in the Pacific Northwest opted for subprime mortgages and because home values have continued to steadily appreciate.

Figure 6. High foreclosure rates are concentrated in California, Nevada and Florida.
Source:Moody's/Economy.com

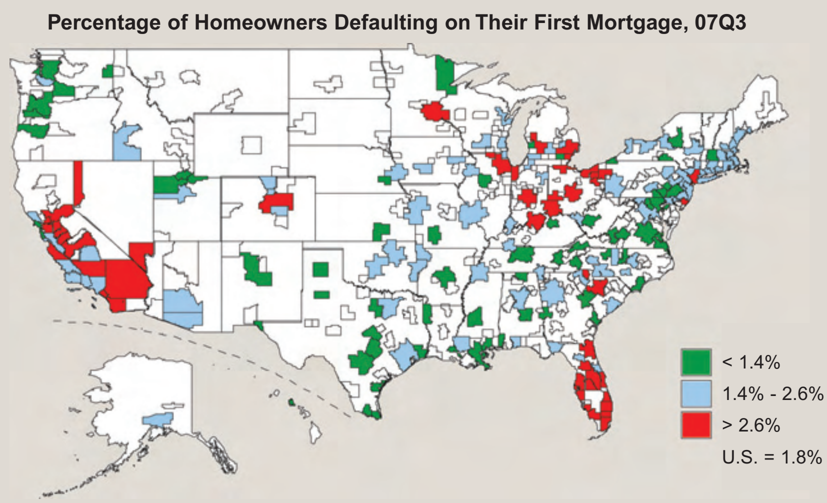

Figure 7. Washington, Oregon and Idaho are well below the national average in foreclosures.
Source: Realty Trac. November, 2007

RANK	FORECLOSURE RATE
Oregon	**1 in every 1,275 homes**
Washington	**1 in every 1,072 homes**
Idaho	**1 in every 893 homes**
NATIONAL AVERAGE	1 IN EVERY 617 HOMES
Nevada	1 in every 152 homes
Florida	1 in every 282 homes
California	1 in every 325 homes
Ohio	1 in every 307 homes
Colorado	1 in every 320 homes
Michigan	1 in every 391 homes
Arizona	1 in every 441 homes

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FACT: Subprime borrowers get a reality check.

Then there are the problems that are affecting subprime borrowers: those who are considered at a higher mortgage risk due to a past history of bankruptcy, delinquent loan payments and low credit scores. During the last number of years, some homebuyers in the U.S. qualified only for these riskier subprime loans to fund the American dream. But, again, unlike the media's portrayal, the reality is that subprime loans comprise only nine percent of total loans nationwide and of those nine percent, less than 11 percent of those subprime ARM and fixed borrowers have defaulted on their loans. (Figure 9) The Pacific Northwest stands apart as is its own micro-market, with more homebuyers qualifying for prime loans. (Figures 8a, 8b, 8c) Homeowners in the Northwest have been able to successfully sell their homes for a profit or refinance to pay off their subprime loans.

Homeowners in the Northwest have been able to successfully sell their homes for a profit or refinance to pay off their subprime loans.

Figure 8. The majority of homes in the U.S. are owned outright or are funded by prime loans. Source: NAR, Response Mortgage. November, 2007.

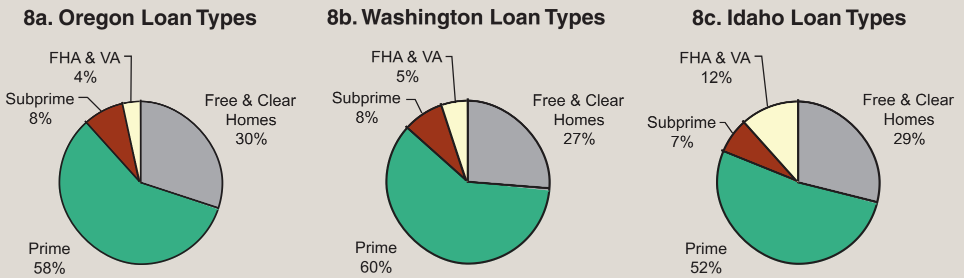
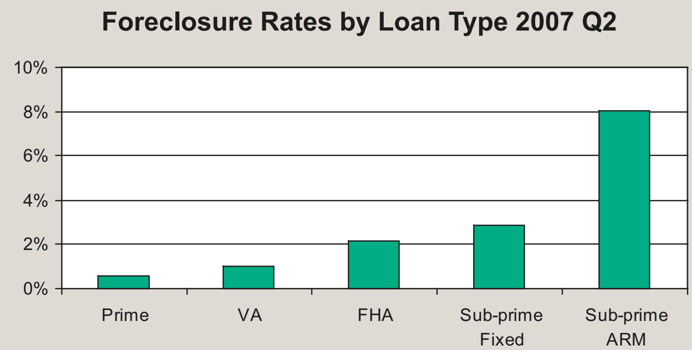


Figure 9. Less than 11% of existing subprime loan holders nationwide are experiencing foreclosures. Source: MBA



Where does all this leave the Pacific Northwest?

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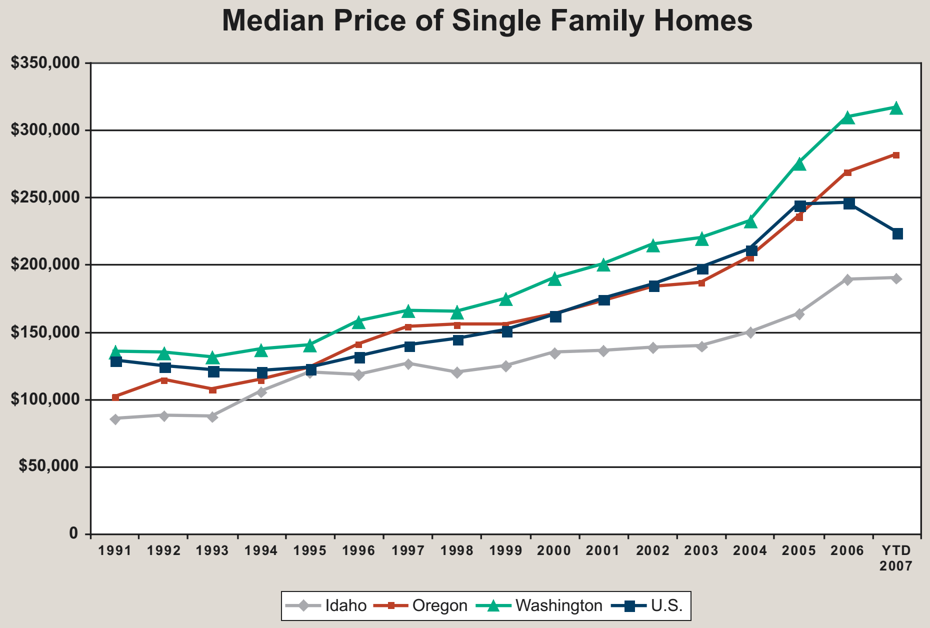
These days, the ups and downs of the real estate market is in the national news every day. But many parts of the country, like the Pacific Northwest, do not have the same negative news as California, Nevada, Arizona and Detroit, Michigan.

ALL REAL ESTATE MARKETS ARE LOCAL

FACT: Real Estate is localized and the Northwest is one of the strongest housing markets in the United States.

Real estate valuation, appreciation and market activity have been and always will be very localized. Because each region of the U.S. is a microcosm with its own employment, geography and housing market dynamics—in contrast to California, Nevada, Florida and Arizona—Washington, Oregon and Idaho homeowners are faring well. These days, the ups and downs of the real estate market is in the national news every day. But many parts of the country, like the Pacific Northwest, do not have the same negative news as California, Nevada, Arizona and Detroit, Michigan, because homes have appreciated at a steady clip in the Pacific Northwest. (Figure 10)

Figure 10. Washington, Oregon and Idaho home prices continue to rise.
Source: Federal Housing Finance Board Monthly Survey



In fact, according to an August, 2007 article by the Associated Press, "Washington state led the nation with the number of cities in the top 20 for (home ownership) appreciation. In order, they are: Wenatchee (up 23.54 percent), Longview (up 13.6 percent), Seattle/Bellevue/Everett (up 9.89 percent), Tacoma (up 9.34 percent) and Spokane (up 9.3 percent)." The Office of Federal Housing Enterprise Oversight (OFHEO) noted that from October 2006 to October 2007, Washington state's overall appreciation had increased 6.98 percent.

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Oregon is also faring well in home appreciation. Whereas the overall housing market is flattening or dropping in other states, according to OFHEO, Oregon homes have seen an overall appreciation of 5.55 percent from October 2006 to October 2007.

Idaho is certainly holding its own with an appreciation gain of 6.87 percent from September 2006 to September 2007, according to OFHEO.

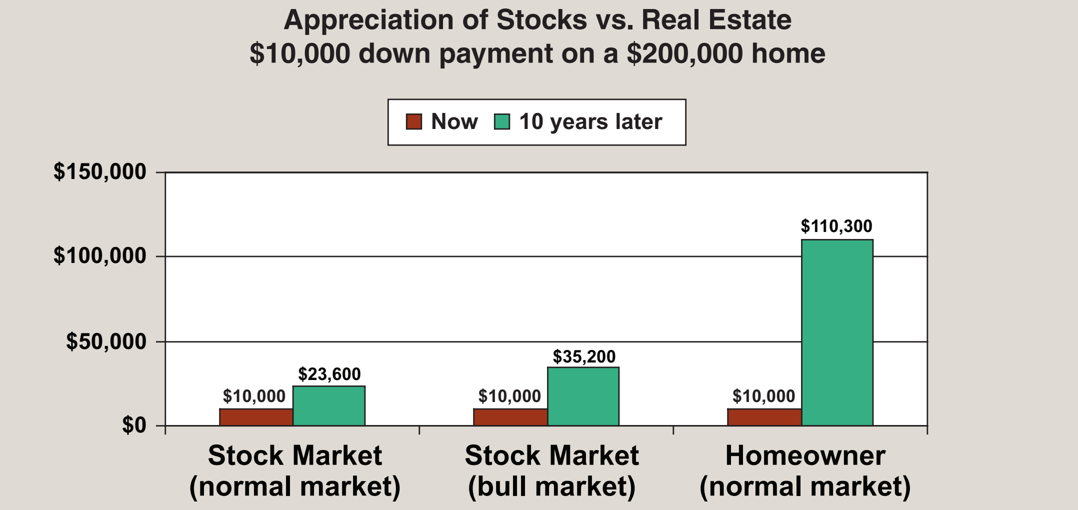
REAL ESTATE CYCLES AND ECONOMICS

▶ FACT: Over the long-term, Real Estate has always appreciated in value.

Real estate has always been one of the most solid investments in the U.S, because, after all, people always need a place to live.

The continuing appreciation of homes in the Northwest is not an anomaly. Real estate has always been one of the most solid investments in the U.S, because, after all, people always need a place to live. Real estate has less volatility than the stock market and over the historical long-term it remains a guaranteed return-on-investment. Take this example from NAR's Lawrence Yun: if a buyer were to put down $10,000 for a down payment on a "typically priced home in the United States at a typical appreciation rate of five percent…(he/she) would see a return of $110,300 after 10 years. The same $10,000 invested in the stock market appreciating 10 percent annually will result in $23,600." (Figure 11)

Figure 11. Real Estate is a more reliable investment than stocks. Source: NAR



As history has shown, for those who choose to keep their home for six to ten years (and not flip for a quick profit) real estate investments do pay off, and pay off well. In fact, what we're seeing now is a repeat of a housing cycle we've seen before. In the early 1980s and 1990s, some areas of the country experienced the worst downturn they had seen in

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In the early 1980s and 1990s, some areas of the country experienced one of the worst downturns they had seen in the last 25 years, which was caused by localized economic weaknesses and loss of jobs. Currently, the Pacific Northwest has one of the strongest economies in the nation.

the last 25 years which were caused by localized economic weaknesses and loss of jobs (Figure 12) while on a nationwide average, others, including the Pacific Northwest were barely affected at all. (Figure 13) But even those areas that were hit the hardest in the past experienced a historic uptick in prices, and then a continuing long-term appreciation. (Figure 14)

Figure 12. Historical price drops during past real estate cycles.
Source: Local Market Monitor

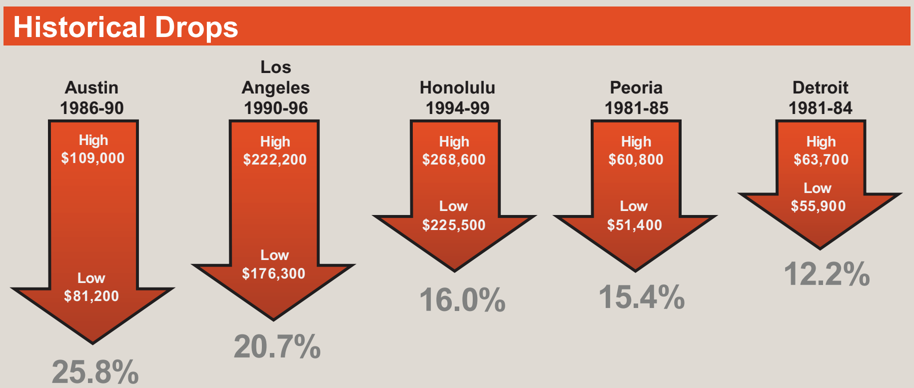


Figure 13. Recent historical home price drops during past real estate cycles. The Pacific Northwest states haven't fluctuated as much as in other areas.
Source: Federal Housing Finance Board Monthly Survey

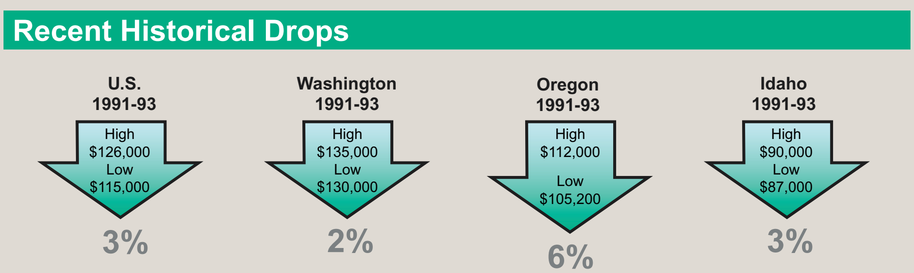
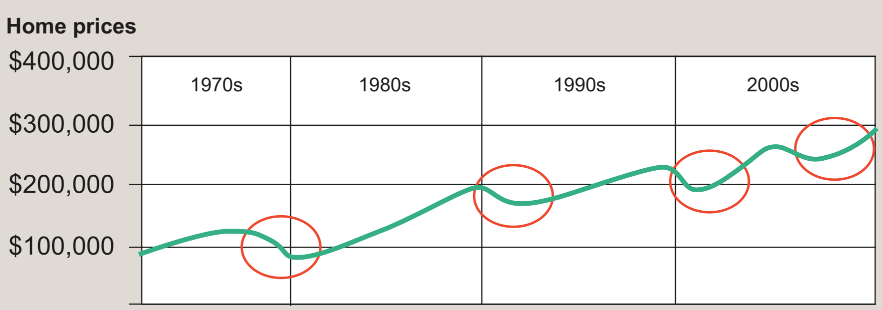


Figure 14. The housing cycle of the mid 80s and early 90s demonstrates that a pause in price appreciation is always succeeded by a rise and is part of a historically natural cycle.



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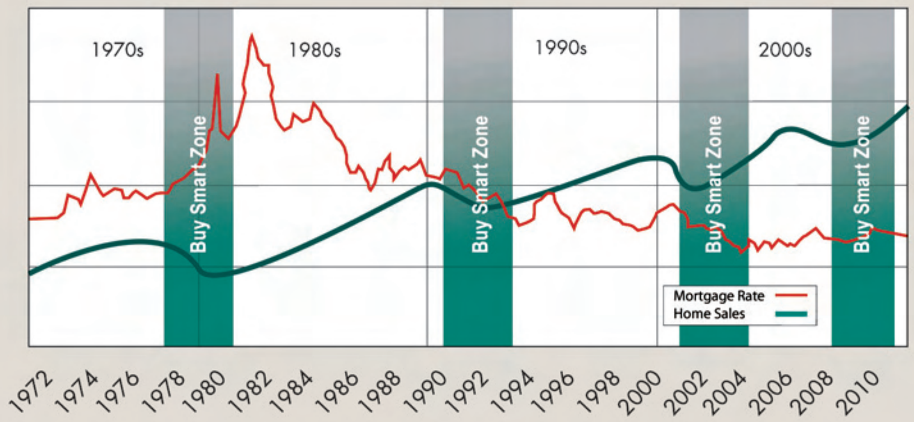
BUY SMART IN TODAY'S MARKET

▶ THE FACTS ADD UP: If you're in the market to buy, now is the time to "Buy Smart"

A number of factors have converged to make this the best buyers' market the Pacific Northwest has seen in years.

- ✔ Rates are back where they were before the market turned, making monthly mortgage payments affordable.
- ✔ There is a wide selection of housing inventory, which is good news for buyers who now have even more properties to choose from to find the right home.
- ✔ Homeowners in it for the long-term nearly always come out ahead in building wealth.
- ✔ It's a good time to take advantage of a strong local economy.
- ✔ Home sales have slowed, giving buyers an advantage.
- ✔ NOW is a great time to Buy Smart!



If you've been considering buying
Now is the Buy Smart Zone

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