



Media Release

Glenn E. Crellin, Director

PO Box 644861
Pullman, WA 99164-4861
509-335-7080
FAX: 509-335-7863

Statistics on Washington's housing market and other useful information are available on WCRER's Web site: www.cbe.wsu.edu/~wcrer. For other information on real estate markets around the State of Washington, or general information about the real estate industry in the state (excluding legal questions), readers can reach the WCRER at 1-800-835-9683.

PMI Risk Index

The staff of the Washington Center for Real Estate Research is constantly on the outlook for resources which real estate licensees and consumers can use to become better informed on emerging trends in real estate. Those efforts have been redoubled as we endeavor to update materials and links on our Web site and as the debate about whether or not there is a real estate bubble continues.

A recently identified resource is provided by PMI Mortgage Insurance Company, a major provider of mortgage insurance which protects lenders against default by those home buyers who do not provide a downpayment of at least 20 percent of the value of the home. Clearly declines in the values of homes (or even stagnant prices) are likely to lead to more claims against that insurance if those households who purchase at the high point in the price cycle suffer a financial reversal and default on their loan, which the lender who forecloses on the property cannot sell and cover the mortgage balance outstanding.

Their quarterly *Economic and Real Estate Trends* report is written primarily from a national standpoint, but they prepare metropolitan area economic indicators, including their proprietary Risk Index which is designed to measure the likelihood of an area-wide decline in house prices over the next two-year period. They have defined an index of 100 as representing a 10 percent likelihood that prices will decline. They compute indexes for the 50 largest metropolitan areas, including the Seattle-Bellevue-Everett and Portland-Vancouver markets in this region. Based on their statistics, the range of likelihoods runs from 44 percent in the San Jose, California area to about five percent in the Las Vegas, Nevada market. Their estimate is a 20 percent risk of decline in greater Portland and an 18 percent risk for the Seattle area. Seven communities were at more risk than Portland, and five markets were between the two Northwest entries. Significantly, the risk of bubble conditions were estimated to have **declined** in both Portland and Seattle in the last three months.

There are other elements of this analysis which are surprising. Most real estate economists are looking at the housing markets throughout coastal California—San Francisco, San Jose, Monterey, Los Angeles, Orange County, and San Diego—as exhibiting signs of a bubble. Prices have increased wildly and are far out of sync with household incomes. However, the May data from PMI suggests that San Diego, Orange County and Los Angeles are all in the bottom 10 among the markets studied in terms of their likelihood of home price declines during the next two years. It will be fascinating to watch.