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No housing woes in booming Washington state



By Jim Christie | September 21, 2007

SAN FRANCISCO (Reuters) - While California suffers in the housing crisis, the economy of nearby Washington state is flourishing with strong job growth and some of the highest appreciation in home prices in the nation.

The outlook for Washington's economy is bright because so many people are moving there in response to help-wanted advertisements. Seattle, the state's biggest city, is an especially hot job market, boosting confidence of sustained growth.

Microsoft co-founder Paul Allen's Vulcan Inc., for instance, sees few obstacles to turning Seattle's South Lake Union area into a thriving residential neighborhood, given Washington state's economic strength.

Lori Mason Curran, market research manager at Vulcan Real Estate, expects 135,000 people will move into the Seattle market over the next five years, propelling demand for housing that Vulcan's property unit is building in South Lake Union.

Vulcan Real Estate's foray into building office property in the industrial and warehouse area "on spec," or without guarantees of leases, will also pay off because of healthy population and job growth, she predicts.

"Seattle is really, really strong on both fronts," she told Reuters during a telephone interview on Tuesday.

Brisk hiring, especially by manufacturers, builders and software companies, is propelling that growth, said Victor Moore, the state's budget director.

"It's the high-paying industries ... There's been a steady demand from employers," Moore said.

Their growth is helping Washington, unlike California and some other states, put aside concerns about a housing slump, at least for the near term, added state Treasurer Michael Murphy.

"With employment really strong, there is less likelihood of having defaults on mortgages," he said, noting Washington's housing sector is avoiding contagion from mortgage market turmoil arising from "subprime" borrowers unable to make their loan payments.

In contrast, the foreclosure rate in nearby California, whose motto is "Eureka" and whose nickname is "the Golden State," surged to the second highest in the nation in August, according to a report released on Tuesday by RealtyTrac, a leading real estate data provider.

U.S. residential construction fell to a 12-year low in August, according to a government report showing a 2.6 percent drop in housing starts. The data was released on Wednesday before Wall Street's opening bell. In the Northeast, housing starts slid 37.7 percent in August, while in the West, housing starts fell 18.4 percent, the Commerce Department said.

STRENGTH ACROSS THE STATE

While growing payrolls keep Washington's housing market intact, they are also swelling state coffers.

ChangMook Sohn, chief economist for Washington's Economic and Revenue Forecast Council, projects \$281.5 million more than initially expected for the state's 2005-2007 and 2007-2009 budget periods -- raising the state surplus to more than \$1.5 billion -- thanks to continued strength in housing from strong payroll growth across the state.

"This is the third year of achieving about 3 percent job increases," Sohn said, adding that Seattle-area

payrolls are growing at a torrid annual rate of 3.8 percent.

Major area employers such as Boeing Co. and Microsoft Corp. are expanding payrolls, as well as companies involved in international trade, as exports gain momentum on the dollar's weakness.

"Everyone expects more containers to come," said Port of Seattle spokesman David Schaefer, noting port officials are putting together plans to double the number of shipping containers the port handles from about 2 million annually.

With demand and prices for agricultural products up, farm-rich eastern Washington is also fueling the state's good times.

"In the Spokane and Pullman areas, economists are saying they're seeing glory days," Sohn said.

HOT TIMES ON THE HOME FRONT

Washington's varied strengths make the Puget Sound region centered on Seattle a top market for Costco Wholesale Corp. and an obvious region for expansion, said Jim Sinegal, the company's president and chief executive.

The Issaquah, Washington, warehouse club operator plans to open another store in the Puget Sound market this fall and has four more "on the charts" for the region because of its growth prospects and confident consumers, Sinegal said.

"Full employment and good wages make it desirable to have a 50-inch (television) set," Sinegal said.

Washington's broad economic strength is underscored by housing markets across the state, said Keitaro Matsuda, an economist with Union Bank of California. He noted that Wenatchee, Washington, notched the nation's best annual home-price appreciation in the second quarter among local markets -- up 23.5 percent -- and four other Washington markets, including Seattle and Spokane, made the top 20 list.

"When you look at its numbers, there aren't too many things that are going wrong with Washington's economy," Matsuda said.

Fitch Ratings revised the state's rating outlook to "positive" from "stable" on September 4, citing its robust economy and resilient housing market -- a contrast to California, whose economy is slowing amid tumbling home sales.

"They don't have the real estate issues California has," said Richard Raphael, a Fitch executive managing director. ■