

Quarterly Report 3Q 2006

A Review of the Seattle Metropolitan Area Real Estate Market

Seattle

SEATTLE METROPOLITAN REGION

The greater Seattle area market shows modest signs of slowing but still continues to significantly outpace the national real estate market

The real estate market for the greater Seattle area (Island, King, Kitsap, Pierce, Snohomish and Thurston Counties) remained stronger than the national trend in the third quarter of 2006 with the metropolitan Zindex™ home value indicator rising to \$337,584, up 15.6% in the third quarter year-over-year (i.e., compared to Q3 2005). Quarterly, year-over-year change was down slightly from the 18.5% year-over-year change reported in the second quarter of 2006. The performance of the greater Seattle area market significantly outpaced the national market where the third quarter Zindex was up only 5% on a year-over-year basis (increasing from \$263,485 to \$269,814 in the third quarter of 2006).

In the greater Seattle area, the Zindex for single-family homes increased from \$347,323 in the second quarter to \$361,736 in the third quarter, an increase of 15.7% year-over-year. On a year-over-year basis, the third quarter performance of single-family homes was less than the 17.4% increase seen in Q2 2006 but much greater than the 5.4% year-over-year increase in single-family home values observed nationally.

The condominium market in the greater Seattle area turned in a strong year-over-year Zindex increase of 19.3%, roughly on par with the second quarter year-over-year change of 19.8%. The greater Seattle condominium Zindex was up to \$258,088 in Q3 from \$240,583 in Q2 (a strong sequential quarterly growth of 7.3%). This performance contrasted sharply with the national condo market which increased only 3.4% year-over-year for the third quarter and was almost flat on a sequential basis.

[Table 1. Greater Seattle Metro Zindex Performance]

	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
United States	269,814	5.0	279,534	5.4	257,953	3.4
Seattle-Tacoma-Bremerton, WA CMSA	337,584	15.6	361,736	15.7	258,088	19.3

[Table 2. Greater Seattle Counties Zindex Performance]

County	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Island County	314,823	19.1	317,405	19.2	--	--
King County	420,145	16.1	447,073	17.3	278,963	19.1
Kitsap County	277,899	13.5	304,713	15.2	182,587	15.2
Pierce County	263,985	15.7	282,010	15.8	228,493	15.7
Snohomish County	333,052	20.0	356,146	18.7	230,640	20.7
Thurston County	237,510	17.0	248,788	16.7	206,849	16.7

[Figure 1. Greater Seattle Metro Zindex and Year-over-Year Change]

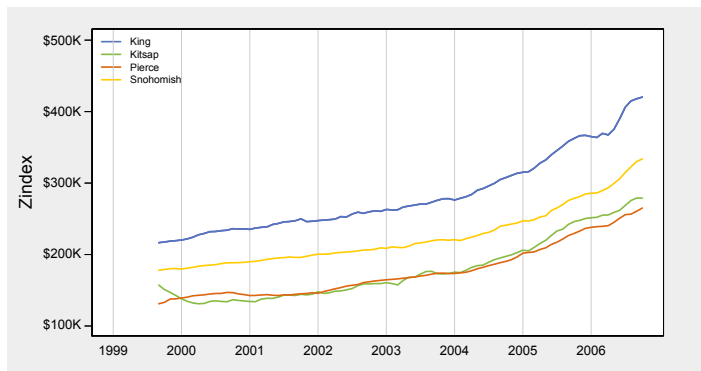


COUNTIES IN THE SEATTLE METRO REGION

Snohomish County shows the highest appreciation in the third quarter

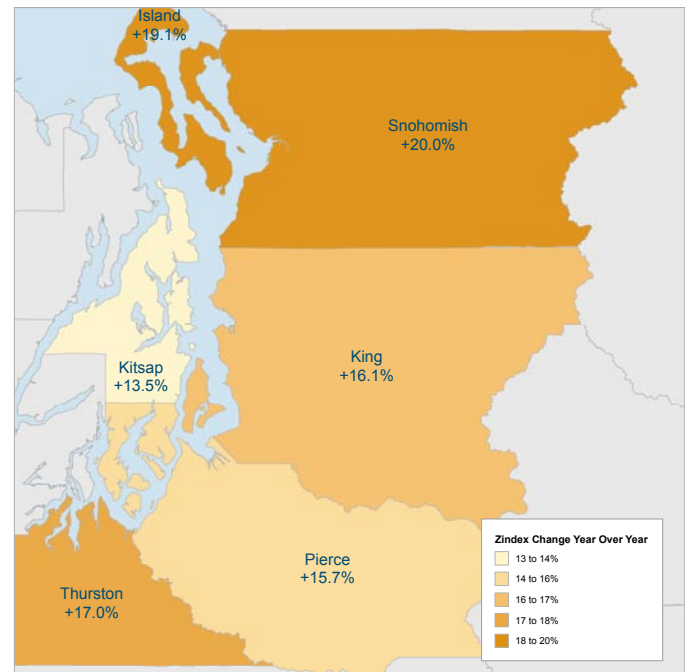
Market performance in the counties making up the metropolitan Seattle-Tacoma-Bremerton region is shown in Table 2. The strongest growth was seen in Snohomish County with 20.0% year-over-year growth in the third quarter versus the slowest appreciating county, Kitsap, with year-over-year growth of 13.5% (still high by national standards). Zindex levels were highest in King County (\$420,145) and lowest in Thurston County (\$237,510). King County home values grew at a rate of 16.1% in the third quarter on a year-over-year basis.

[Figure 2. Zindex Trends by County]



*Island and Thurston Counties not included due to insufficient transaction data

[Figure 3. County Map of Year-over-Year Change in Zindex]



CITIES IN THE GREATER SEATTLE REGION

Slowest appreciation among regional cities is still higher than the national appreciation rate

The three cities in the greater Seattle region with the highest valued real estate (measured by the Zindex) in the third quarter of 2006 were Medina (\$1,487,306), Mercer Island (\$914,092) and Clyde Hill (\$1,299,041). The three fastest appreciating cities in the area (as measured by year-over-year change between Q3 2005 and Q3 2006) were Fox Island, Yelm, and Coupeville (all with year-over-year appreciation rates above 24%), while the three slowest appreciating cities were Roy, Lakebay, and Anderson Island (5.4%, 6.6% and 6.7% year-over-year appreciation, respectively). Note that even the slowest appreciating city in the greater Seattle region (Roy) saw greater price appreciation than the nation overall (which had 5.0% year-over-year change in the Zindex for the third quarter).

[Table3. Highest and Lowest Valued/Appreciating Cities]

City or Town	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Anderson Island	212,820	6.7	242,582	11.7	--	--
Clyde Hill	1,299,041	18.5	1,309,184	19.4	566,543	--
Coupeville	337,993	24.3	338,698	24.3	--	--
Fox Island	539,881	28.2	569,218	29.5	301,596	22.9
Lakebay	193,333	6.6	251,805	19.2	--	--
Medina	1,487,306	12.7	1,487,964	12.8	--	--
Mercer Island	914,092	11.9	945,614	11.8	308,758	7.5
Roy	205,181	5.4	321,562	19.8	169,315	--
Yelm	192,305	26.0	204,510	22.5	--	--

(See appendix for the complete list for City Zindex Performance)

CITY OF SEATTLE NEIGHBORHOODS

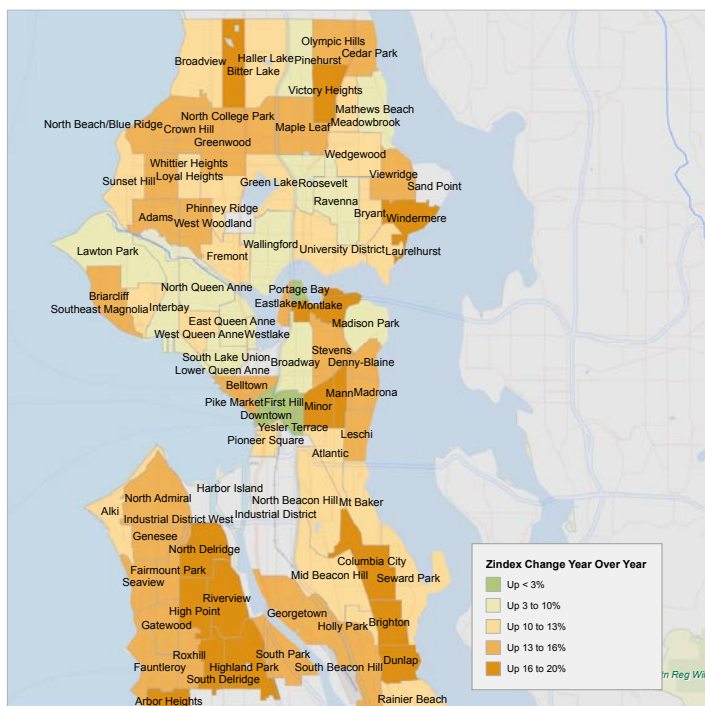
West Seattle experiences higher appreciation in home values in third quarter

The areas to the northeast, southwest, and southeast of Downtown Seattle saw the highest appreciation in home values in the third quarter (see neighborhood data in Table 4 and a map of year-over-year change in Zindex values by neighborhood in Figure 4). To the Southwest, many West Seattle neighborhoods (Arbor Heights, South Delridge, North Delridge, Highland Park, High Point and Riverview) saw year-over-year change in their Zindex above 17% for Q3. Neighborhoods to the Northeast, such as Denny-Blaine, Stevens, Montlake, Minor, Mann and Madrona saw year-over-year changes between 15% and 19% for the third quarter. In the Southeast, Brighton, Dunlap, and Columbia City saw year-over-year growth in the Zindex of between 17% and 20% in the most recent quarter.

The three highest appreciating neighborhoods were Dunlap, Windermere, and North Delridge with Zindex changes of 20%, 19.8% and 18.8%, respectively. The three lowest appreciating neighborhoods were First Hill, Portage Bay and Yesler Terrace with Zindex changes of -14.7%, 2.1% and 3.3% respectively (on a year-over-year basis).

The three most expensive neighborhoods in Seattle were Denny-Blaine, Laurelhurst, and Madison Park with Q3 Zindex values of \$987,685, \$930,753, and \$872,523, respectively. The three least expensive neighborhoods were South Park, Yesler Terrace, and Georgetown with Zindex values of \$271,603, \$275,118 and \$292,444, respectively, in the past quarter.

[Figure 4. Neighborhood Map of Year-over-Year Change in Zindex]



[Table 4. Neighborhood Zindex Performance]

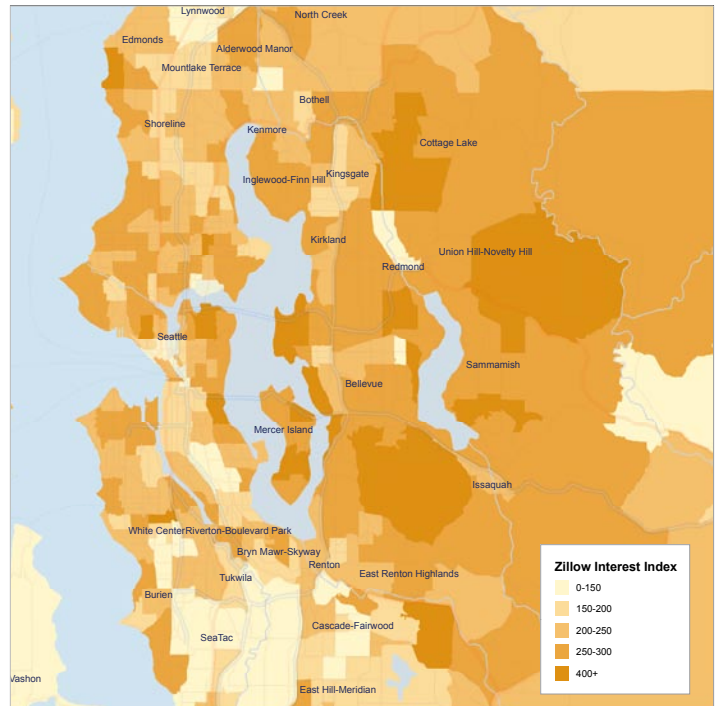
Neighborhoods	Zindex Rank	Zindex (\$)	Zindex Change YoY (%)
Seattle		446,739	15.2
Adams	51	420,483	15.7
Alki	16	608,651	13.1
Arbor Heights	55	396,771	18.7
Atlantic	63	373,240	13.3
Belltown	62	376,145	14.7
Bitter Lake	59	384,552	17.9
Briarcliff	4	827,313	14.2
Brighton	73	340,233	18.1
Broadview	29	507,464	13.3
Broadway	72	340,398	7.3
Bryant	27	521,116	12.2
Cedar Park	44	448,023	14.4
Columbia City	68	352,261	17.1
Crown Hill	49	424,560	16.6
Denny-Blaine	1	987,685	15.2
Downtown	25	525,006	3.5
Dunlap	77	326,318	20.0
East Queen Anne	17	587,821	9.9
Eastlake	58	384,679	14.3
Fairmount Park	52	418,405	15.9
Fauntleroy	19	558,536	15.1
First Hill	81	311,604	-14.7
Fremont	39	460,391	12.3
Gatewood	38	465,776	16.4
Genesee	43	452,723	15.2
Georgetown	83	292,444	16.4
Green Lake	21	541,834	12.1
Greenwood	50	420,702	16.4
Haller Lake	61	378,167	12.4
High Point	76	335,563	18.3
Highland Park	79	317,294	18.4
Holly Park	64	365,291	11.5
Interbay	56	390,021	9.0
Laurelhurst	2	930,753	13.3
Lawton Park	30	506,592	10.8
Leschi	12	634,209	16.2
Lower Queen Anne	67	360,952	8.9
Loyal Heights	36	473,886	15.0
Madison Park	3	872,523	8.3
Madrona	10	647,456	16.8
Mann	47	426,738	18.0
Maple Leaf	46	436,234	14.1
Mathews Beach	31	505,672	9.8
Meadowbrook	45	438,917	13.3
Mid Beacon Hill	66	362,152	11.4
Minor	53	404,078	17.8
Montlake	7	792,821	18.2
Mt Baker	18	580,488	12.5
North Admiral	24	529,250	14.5
North Beach/Blue Ridge	9	685,462	16.3
North Beacon Hill	60	383,044	12.0
North College Park	54	399,231	15.0
North Delridge	78	322,422	18.8
North Queen Anne	15	610,850	10.3
Olympic Hills	57	386,871	15.7
Phinney Ridge	26	522,878	11.3
Pike Market	33	502,488	14.5
Pinehurst	69	351,259	10.4
Pioneer Square	42	454,766	11.3
Portage Bay	6	798,730	2.1
Rainier Beach	65	364,440	13.0
Rainier View	80	315,942	18.1
Ravenna	23	529,340	11.0
Riverview	74	338,670	18.5
Roosevelt	32	505,413	10.0
Roxhill	75	338,521	16.6
Seaview	40	460,321	14.2
Seward Park	28	516,434	13.6
South Beacon Hill	70	347,301	15.3
South Delridge	82	309,429	17.9
South Park	85	271,603	15.8
Southeast Magnolia	11	643,952	13.0
Stevens	8	704,912	15.9
Sunset Hill	22	538,058	12.7
University District	35	479,379	12.7
Victory Heights	48	425,980	16.9
Viewridge	13	625,373	14.7
Wallingford	20	557,435	9.6
Wedgewood	34	490,121	11.9
West Queen Anne	14	613,113	11.7
West Woodland	41	456,584	15.0
Westlake	71	347,267	10.7
Whittier Heights	37	466,673	13.2
Windermere	5	800,982	19.8
Yesler Terrace	84	275,118	3.3

ZILLOW INTEREST INDEX

Zillow users drawn to waterfront communities

As with our previous quarterly reports, we are again providing detail via the Zillow Interest Index (ZII) on where people are most often looking at homes in the greater Seattle region. The ZII is a simple ratio of the number of page views of individual homes in a geographic area divided by the number of homes in that area. The more people look at homes in an area, the more page views are generated on Zillow servers and the higher the ZII. This quarter, we are displaying ZII data down to the census tract level, a finer level of geography than the ZIP code level which was used previously. The geographic distribution of the ZII across the greater Seattle region is shown in Figure 5. The hottest areas of interest include the Lake Washington communities of Mann, Mt. Baker, Bellevue, and Medina, the Elliott Bay-facing neighborhoods of Magnolia and Queen Anne, and the city of Sammamish, located on the eastern shore of Lake Sammamish.

[Figure 5. Zillow Interest Index]

**About the Zindex™**

The Zindex home value indicator is the median Zestimate valuation for a given geographic area on a given day. Exactly half the Zestimates for a region are below this number and half the Zestimates are above it. It is expressed in dollars and is for a particular geographic region (e.g., Zindex = \$245,000 for Baltimore on July 1, 2005). Zillow believes the Zindex is the best measure of market performance because it is based on estimates of the current value of every home in the area and, thus, approximates the median sale price of the whole area were

every home sold on the same day. This is in contrast to the median sale price of homes which is biased potentially by the mix of housing sold in the period of time associated with it. For example, if high-end homes are not selling very well, but mid-range homes are, then the median sale price will be lower than a true measure of the typical value of homes in the market because the median sale price is taken from the set of mid-range home sales that transact in the period, ignoring the high-end homes that don't transact.

APPENDIX

City Zindex Performance

City or Town	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Algona	247,765	14.0	257,615	14.9	220,284	22.5
Anderson Island	212,820	6.7	242,582	11.7	--	--
Arlington	295,559	20.2	313,028	20.1	228,159	18.0
Auburn	310,760	15.4	321,859	15.9	222,673	23.4
Bainbridge Island	627,696	19.7	650,546	20.0	387,175	16.1
Bellevue	542,271	18.8	600,321	17.8	273,145	24.2
Black Diamond	350,611	19.8	361,125	17.2	232,402	19.8
Bonney Lake	286,739	17.2	306,447	16.4	209,062	10.5
Bothell	392,922	18.7	417,915	17.8	267,853	26.7
Bremerton	237,591	10.9	250,445	10.9	147,504	15.5
Brier	406,273	15.3	409,264	15.6	285,989	12.5
Buckley	286,245	15.9	325,029	15.0	211,185	12.6
Burien	333,790	15.9	339,734	16.0	187,612	19.9
Camano Island	366,548	19.9	368,822	19.8	--	--
Carnation	456,035	15.6	470,513	16.0	--	--
Clinton	394,525	16.8	394,525	16.8	--	--
Clyde Hill	1,299,041	18.5	1,309,184	19.4	566,543	--
Coupeville	337,993	24.3	338,698	24.3	--	--
Covington	312,880	17.2	313,650	17.3	356,606	12.7
Darrington	192,518	21.3	200,769	18.8	--	--
Des Moines	314,099	15.5	320,072	16.6	227,772	22.7
Dupont	292,257	12.7	305,912	11.4	231,724	14.4
Duvall	443,476	16.6	461,626	17.7	285,357	17.4
Eatonville	237,613	17.6	298,538	21.9	--	--
Edgewood	360,911	18.5	378,640	18.6	143,029	-9.1
Edmonds	406,342	15.2	420,965	15.3	281,158	25.7
Enumclaw	339,426	18.8	341,852	18.9	255,904	40.4
Everett	303,387	19.9	319,752	20.4	203,573	27.3
Fall City	543,710	18.4	581,338	19.8	--	--
Federal Way	308,014	15.4	322,341	16.8	180,832	26.1
Fife	291,583	23.2	319,479	15.5	194,021	19.9
Fircrest	325,373	14.1	325,147	14.2	292,766	9.9
Fox Island	539,881	28.2	569,218	29.5	301,596	22.9
Freeland	367,203	20.4	369,966	19.5	--	--
Gig Harbor	349,617	9.1	391,113	13.4	327,759	19.5
Gold Bar	228,853	18.5	248,056	19.2	--	--
Graham	250,561	16.5	299,041	12.6	229,130	18.2
Granite Falls	239,144	18.0	251,924	17.5	391,623	--
Greenbank	375,420	15.5	374,968	15.6	--	--
Hansville	387,147	12.0	405,980	10.2	--	--
Indianola	369,072	24.2	378,564	23.8	--	--
Issaquah	513,269	16.4	565,869	18.7	294,195	13.9
Kenmore	448,041	17.8	465,100	18.9	260,638	19.5
Kent	332,473	17.0	344,618	16.9	228,857	21.1
Kingston	318,242	15.0	366,987	16.7	247,219	5.2
Kirkland	453,727	17.6	496,140	20.1	285,079	23.9
Lacey	238,216	15.6	242,276	15.7	184,968	10.3
Lake Forest Park	481,368	15.5	492,641	15.1	239,867	30.9
Lake Stevens	319,833	20.2	330,616	19.2	222,004	26.4
Lake Tapps	400,815	17.2	446,660	18.9	288,338	10.7
Lakebay	193,333	6.6	251,805	19.2	--	--
Lakewood	264,342	15.4	279,239	15.6	203,759	6.1
Langley	412,721	21.5	413,259	21.1	--	--
Longbranch	228,215	11.4	297,064	21.2	--	--
Lynnwood	349,158	17.7	367,146	18.2	228,445	20.0
Maple Valley	365,715	11.8	375,126	12.5	281,732	15.9
Marysville	285,571	19.5	290,842	19.1	231,485	21.0
Medina	1,487,306	12.7	1,487,964	12.8	--	--
Mercer Island	914,092	11.9	945,614	11.8	308,758	7.5
Mill Creek	455,258	15.9	493,746	18.8	292,226	22.6
Milton	287,699	17.6	294,488	17.0	234,826	13.6
Monroe	318,791	19.5	330,394	18.8	224,554	22.1
Mountlake Terrace	300,948	18.1	310,093	18.2	221,466	16.6
Mukilteo	468,368	20.3	500,199	18.3	219,578	13.0
Newcastle	553,604	10.9	585,775	13.2	285,442	68.4
Normandy Park	582,210	17.1	585,478	16.6	439,984	15.5
North Bend	404,081	13.8	412,638	14.5	248,795	24.3
Oak Harbor	275,713	15.9	281,054	16.9	--	--
Olalla	266,828	12.2	339,909	13.5	--	--
Olympia	259,567	15.8	269,899	14.1	212,743	14.3
Orting	258,138	13.7	274,812	13.2	210,357	13.4
Pacific	272,305	15.0	276,398	16.4	--	--
Port Orchard	254,966	11.3	275,537	13.3	156,166	12.6
Poulsbo	338,249	16.3	367,436	16.8	160,350	15.6
Puyallup	278,700	14.6	290,925	14.6	198,942	7.8
Rainier	202,048	23.3	210,465	19.6	--	--
Ravensdale	390,263	17.4	425,363	19.6	--	--
Redmond	518,495	21.0	557,937	19.8	284,466	21.9
Renton	352,706	15.6	370,423	16.1	218,008	19.5
Rochester	200,888	22.3	218,576	20.2	301,937	30.6
Roy	205,181	5.4	321,562	19.8	169,315	--
Sammamish	616,287	18.9	633,992	19.4	323,685	10.3
Seabeck	336,027	17.6	406,921	17.8	--	--
Seatac	286,634	14.7	290,856	15.3	163,666	26.8

(Table continued)

City or Town	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Seattle	446,739	15.2	466,418	15.7	319,541	12.5
Shoreline	375,216	11.4	382,932	12.2	268,612	18.0
Silverdale	316,264	15.7	325,711	15.1	207,268	12.9
Snohomish	411,055	21.8	437,960	19.1	262,887	23.8
Snoqualmie	465,314	20.4	494,243	19.5	334,245	26.4
Spanaway	239,670	15.5	253,469	13.6	201,306	15.8
Stanwood	322,723	21.2	353,918	19.5	218,085	18.0
Steilacoom	312,716	17.3	329,441	17.1	147,923	12.7
Sultan	250,857	21.4	268,224	22.1	228,571	15.8
Sumner	252,396	19.4	299,733	19.9	266,607	16.9
Suquamish	214,890	14.9	231,209	17.2	--	--
Tacoma	244,172	16.3	248,364	16.5	212,351	12.1
Tenino	194,903	20.1	216,483	21.2	--	--
Tukwila	287,041	17.1	306,974	17.1	189,411	28.8
Tulalip	248,544	22.0	280,876	20.5	149,112	32.3
Tumwater	244,159	13.3	258,683	13.7	196,600	30.4
University Place	331,561	14.1	335,783	12.4	241,212	16.6
Vashon	482,329	21.9	498,174	22.5	258,643	25.7
Woodinville	578,872	14.9	603,825	14.7	296,193	49.9
Yelm	192,305	26.0	204,510	22.5	--	--