

PREPARED EXCLUSIVELY FOR
WINDERMERE REAL ESTATE

THE GARDNER REPORT

Windermere Real Estate is delighted to be partnered with Gardner Economics to provide analysis and commentary on the Western Washington Real Estate market. We hope that this report will function as a valuable tool for owners and agents. You can educate buyers and sellers as to the realities of our market while dispelling theories that may apply to the U.S. as a whole, but may be less applicable to us here in the Northwest. You may wonder why Windermere would publish a report that has negative information. It is a historical truth that transparency equals honesty. Consumers gravitate toward companies who stand for the truth regardless of its tenor. Please use this information judiciously.

MACRO & REGIONAL ECONOMICS

The National Association of Business Economists called an official end to the so called Great Recession. That's right, the survey of forecasters (for full disclosure, I am a member) found that 80 percent believed that the economy was growing again after a torturous 18-months. So why doesn't it feel like it's better?

Much of our angst is due to consternation over the job market, which continues to struggle. I will discuss this shortly, but would make the point that the employment situation, and more specifically the unemployment rate, is a lagging indicator of economic recovery. Most believe that the unemployment situation will get worse before it gets better, however a closer look at the numbers does provide some comfort. The data that we use looks at the labor force by area and gives a clearer picture as the numbers reflect county residents' employment situation rather than industry employment.

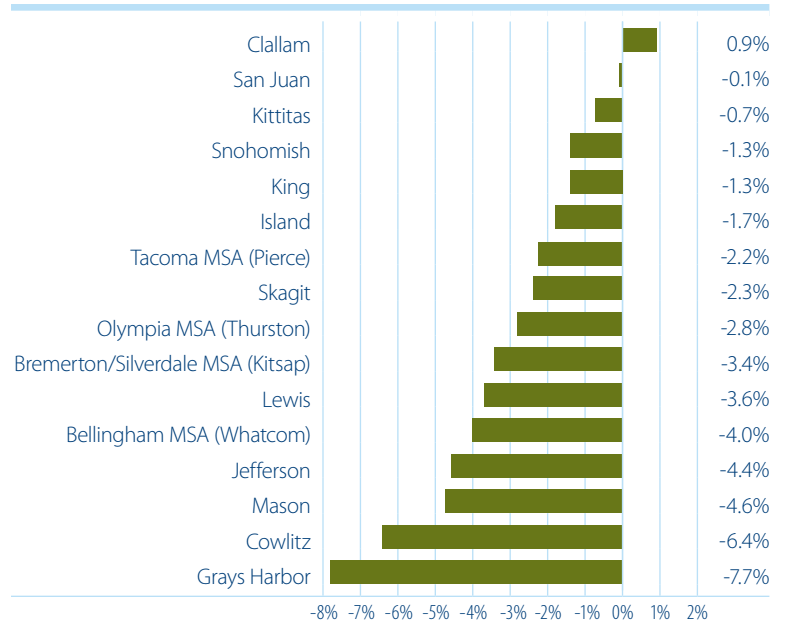
Last quarter I discussed the fact that the pace of job losses was slowing and this continues to be the case in almost half of the markets surveyed. This is appearing to be most concentrated in the primary job centers of King and Snohomish counties, where the number of unemployed persons dropped by almost 9,000 and just over 3,000 respectively over the second quarter of 2009. Clallam County was the only market that saw improvement in its employment situation, with a gain of 260 jobs. Much of the decline in the last quarter, and specifically in September, was a function of losses in the local government sector and I am still hopeful that we will see an improving employment situation in the spring of 2010. The rate of layoffs appears to be slowing and, as they say, "you have to stop firing, before you start hiring."

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Sept 08 - Sept 09	Growth Rate
Bellingham MSA (Whatcom)	-4,130	-4.0%
Bremerton/Silverdale MSA (Kitsap)	-4,030	-3.4%
Clallam	260	0.9%
Cowlitz	-2,610	-6.4%
Grays Harbor	-2,290	-7.7%
Island	-520	-1.7%
Jefferson	-570	-4.4%
King	-13,610	-1.3%
Kittitas	-140	-0.7%
Lewis	-1,030	-3.6%
Mason	-1,100	-4.6%
Olympia MSA (Thurston)	-3,510	-2.8%
San Juan	-10	-0.1%
Skagit	-1,280	-2.3%
Snohomish	-4,610	-1.3%
Tacoma MSA (Pierce)	-8,180	-2.2%

Not Seasonally Adjusted

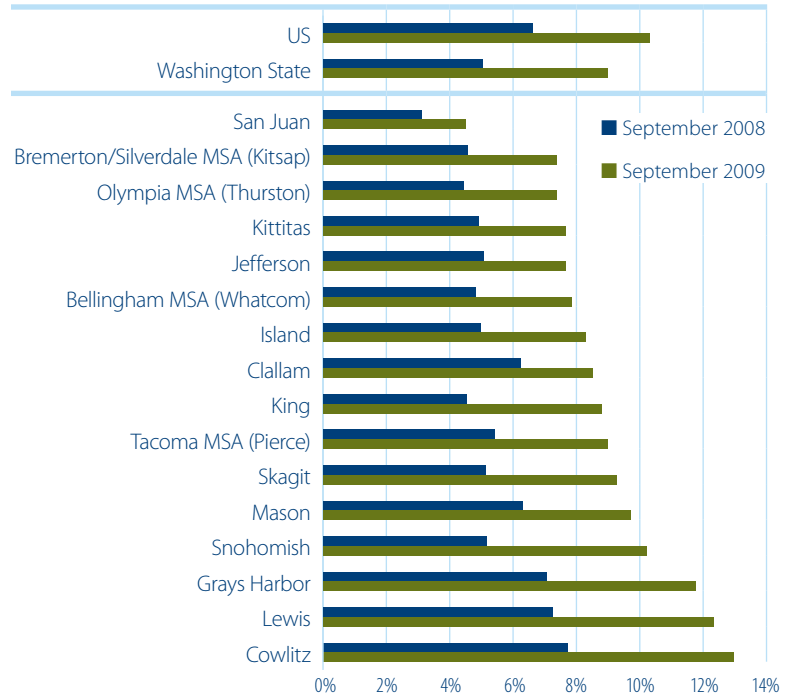
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	98,250	7.9%
Bremerton/Silverdale MSA (Kitsap)	114,110	7.2%
Clallam	28,260	8.6%
Cowlitz	37,860	12.9%
Grays Harbor	27,270	11.9%
Island	30,860	8.2%
Jefferson	12,450	7.5%
King	1,026,620	8.8%
Kittitas	19,990	7.4%
Lewis	27,690	12.1%
Mason	22,580	9.5%
Olympia MSA (Thurston)	121,390	7.2%
San Juan	9,080	4.8%
Skagit	54,620	9.2%
Snohomish	348,240	10.1%
Tacoma MSA (Pierce)	365,710	9.0%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Overall transactions of resale product in our market area totaled 15,080 units in the third quarter of 2009. This is 22 percent above the second quarter of 2009 and 4 percent above the third quarter of 2008, but 15 percent below the year-to-date numbers for the first three quarters of last year. With an increase, relative to the last quarter and the same quarter of last year, I believe that traction is being achieved.

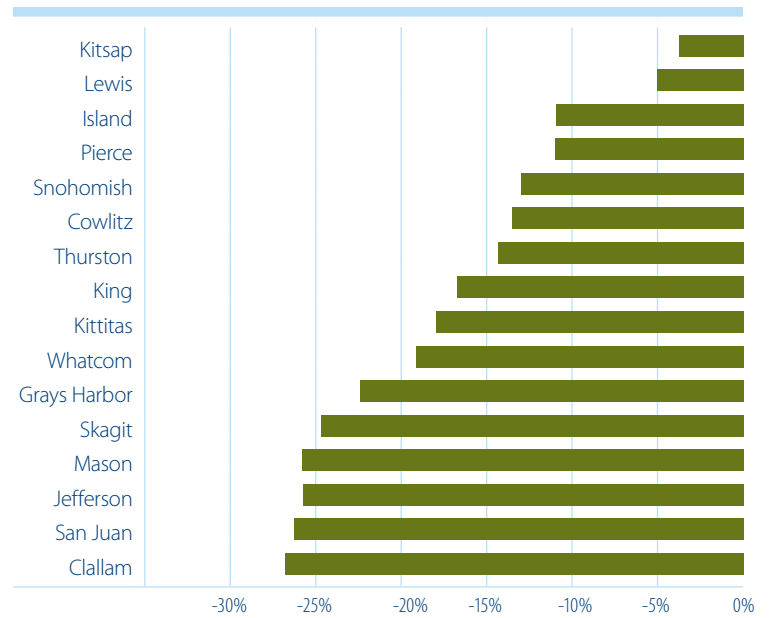
Additionally, when we look at sales prices, I continue to see signs of improvement. Whilst we are still negative relative to transactional prices seen in September of 2008, the floor that I have suggested is developing is gaining strength. Median price in September 2009 was down by 4.8 percent from the same period in 2008, but up by 0.8 percent from June 2009.

Year-over-year price growth was generally negative across the region relative to the same period in 2008 with the exception of San Juan and Clallam counties. That being said, I was pleased to see that, over the past quarter, several counties also recorded positive price appreciation. This was most noticeable in San Juan and Grays Harbor Counties where, quarter-over-quarter, prices were up by 26 and 14 percent respectively. As I have stated before, in markets with low levels of transactions, one is likely to see violent swings in prices. In addition to these counties, quarterly prices were up in Kitsap, Mason, Lewis, Thurston, Island and Jefferson counties. This is a trend that I hope will continue.

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date Sep 09	Year-to-Date Sep 08
King	14,145	17,097
Snohomish	5,568	6,409
Pierce	5,963	6,716
Kitsap	1,935	2,004
Mason	398	534
Skagit	746	987
Grays Harbor	457	588
Lewis	402	423
Cowlitz	477	551
Thurston	2,145	2,508
San Juan	87	118
Island	634	714
Kittitas	281	345
Jefferson	175	235
Whatcom	1,649	2,037
Clallam	221	302

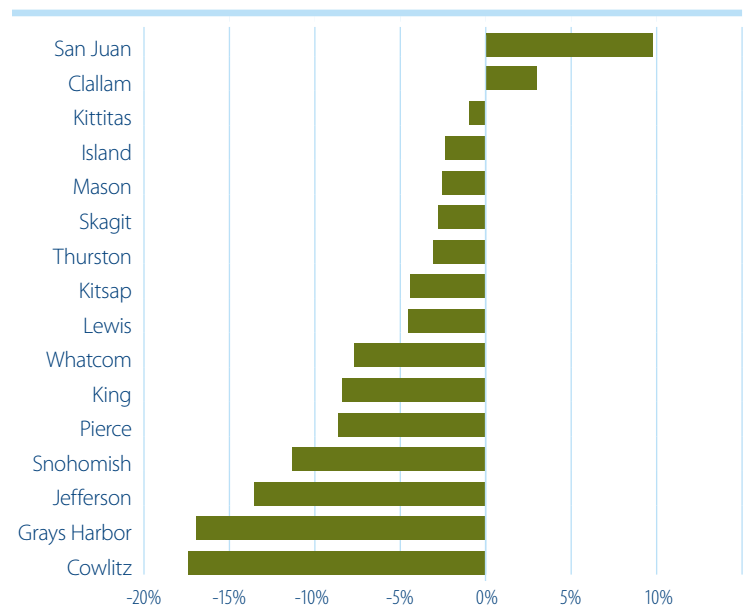
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Sep 08 - Sep 09	Net Growth (in thousands of dollars)
King	-8.2%	-31.3
Snohomish	-11.3%	-36.0
Pierce	-8.4%	-20.4
Kitsap	-4.1%	-10.6
Mason	-1.9%	-3.5
Skagit	-2.2%	-5.4
Grays Harbor	-16.3%	-26.0
Lewis	-4.2%	-7.3
Cowlitz	-17.0%	-30.6
Thurston	-2.4%	-6.0
San Juan	9.1%	40.0
Island	-1.8%	-5.0
Kittitas	-0.7%	-1.5
Jefferson	-13.5%	-36.0
Whatcom	-8.2%	-21.1
Clallam	2.6%	6.0

HOME PRICE GROWTH RATE

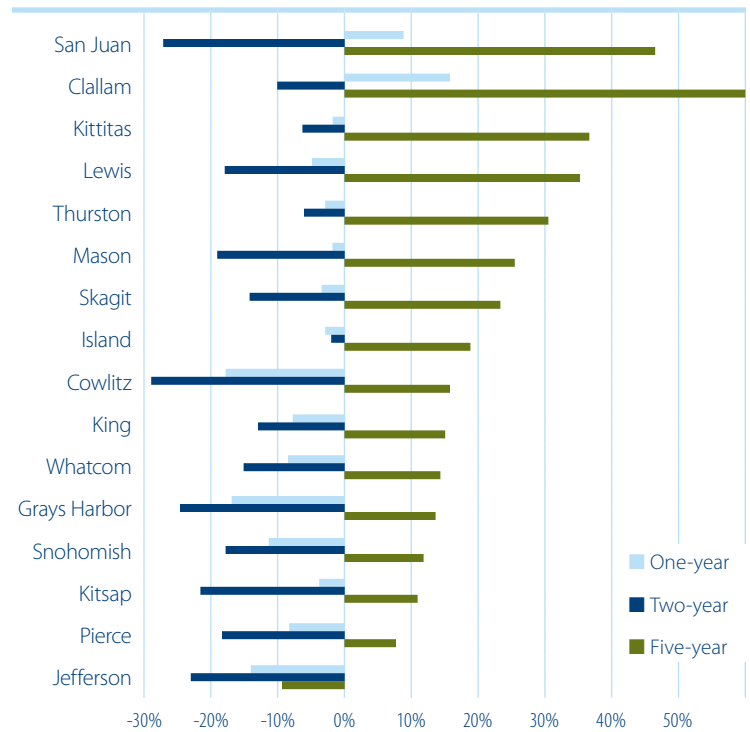


RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
King	\$349,000	-3.9%	-8.2%	-11.6%	16.5%
Snohomish	\$282,000	-5.7%	-11.3%	-18.1%	13.7%
Pierce	\$221,600	-3.7%	-8.4%	-17.9%	8.1%
Kitsap	\$249,725	0.7%	-4.1%	-21.3%	13.0%
Mason	\$181,500	0.8%	-1.9%	-18.1%	25.2%
Skagit	\$233,900	-4.9%	-2.2%	-14.7%	23.1%
Grays Harbor	\$134,000	13.8%	-16.3%	-24.5%	15.5%
Lewis	\$167,500	1.9%	-4.2%	-17.3%	34.1%
Cowlitz	\$149,900	-6.0%	-17.0%	-27.2%	16.7%
Thurston	\$242,000	0.8%	-2.4%	-6.2%	30.8%
San Juan	\$480,000	26.3%	9.1%	-27.2%	45.5%
Island	\$280,000	7.4%	-1.8%	-0.4%	19.1%
Kittitas	\$220,495	-2.0%	-0.7%	-6.6%	35.7%
Jefferson	\$230,000	9.5%	-13.5%	-22.0%	-6.7%
Whatcom	\$236,450	-10.8%	-8.2%	-12.3%	10.5%
Clallam	\$236,000	-12.6%	2.6%	-18.6%	108.8%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

For the past few quarters I have been suggesting that we have started to see a bottom forming in our market. Months of inventory, when based on pending sales, is hovering around the 6-month mark – a sign of a balanced market. The last time that we were at these levels was the spring of 2007.

These are encouraging signs and further evidence that a real estate base is being created in our region. The Homebuyer Tax Credit has proven to be an effective tool and one that I hope will be extended through the summer of 2010, opened up to all buyers, and that income limits are increased. Such a move has garnered considerable support in Congress and, in as much as I am mindful that any proposal does carry a significant financial cost, I am extremely hopeful that the current Administration and Congress will fashion appropriate and effective home buyer incentives to stimulate new demand.

Looking at the effectiveness of the tax credit to date I note that, through August of this year, the IRS has estimated that about 1.4M homebuyers had claimed this credit. The National Association of Realtors has also suggested that this stimulus was instrumental in getting 355,000 homebuyers off the fence.

As I have stated, the cost of additional stimulus is substantial and current estimates suggest that proposed extension and expansion may cost upward of \$16.7 billion over the next five years. However, this figure is still less than 3 percent of the overall stimulus package, and is well worth it given that it has already been proven successful.

ABOUT MATTHEW GARDNER

Mr. Gardner is a land use economist and principal with Gardner Economics and is considered by many to be one of the foremost real estate analysts in the Pacific Northwest.

In addition to managing his consulting practice, Mr. Gardner is a member of the Pacific Real Estate Institute; sits as a trustee for the Washington State Center for Real Estate Research; the Urban Land Institutes Technical Assistance Panel; and represents the Master Builders Association as a Director on the Board of the Building Industry Association of Washington.

He has appeared on CNN, NBC and NPR news services to discuss real estate issues, and is regularly cited in the *Wall Street Journal* and all local media.

