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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 advanced GDP estimate for the fourth quarter of 2009 showed that we are now six months out of the "Great Recession." We have seen positive GDP growth for two consecutive quarters, rising by 2.2 percent in the third and 5.7 percent in the fourth quarter. Nevertheless, the stubbornly high regional and national unemployment rate is preventing the sort of strong recovery that we were all hoping for.

Speaking of the job market, on a national basis, we have seen a relative improvement in unemployment claims, signaling that the economy is beginning to move in the right direction. First-time claims dropped under 500,000 in mid-November, which is the first time since January that such levels had been reached. However, these claims will need to drop below 400,000 before we can expect the unemployment rate to drop.

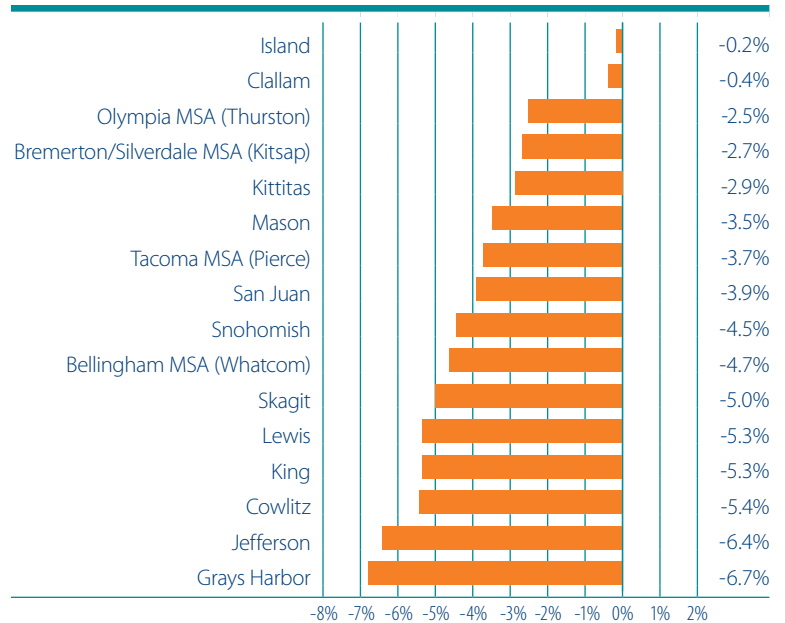
The local employment situation is doing little better than the national one. Two counties saw employment figures increase between the third and fourth quarters, with Whatcom and Thurston Counties adding 750 and 890 jobs, respectively. However, the Seattle-Bellevue-Everett and Tacoma PMSAs did not perform nearly as well, with King, Snohomish and Pierce Counties losing 16,270, 5,520 and 3,250 jobs, respectively, over that period. With that said, I do believe that we will see the local employment situation show sustained improvement in the late spring and early summer of 2010, and this will be led by the core central Puget Sound counties.

### NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Dec 08 - Dec 09	Growth Rate
Bellingham MSA (Whatcom)	-3,900	-4.7%
Bremerton/Silverdale MSA (Kitsap)	-2,300	-2.7%
Clallam	-100	-0.4%
Cowlitz	-2,000	-5.4%
Grays Harbor	-1,610	-6.7%
Island	-30	-0.2%
Jefferson	-590	-6.4%
King	-64,000	-5.3%
Kittitas	-410	-2.9%
Lewis	-1,280	-5.3%
Mason	-480	-3.5%
Olympia MSA (Thurston)	-2,600	-2.5%
San Juan	-210	-3.9%
Skagit	-2,300	-5.0%
Snohomish	-11,500	-4.5%
Tacoma MSA (Pierce)	-10,400	-3.7%

Not Seasonally Adjusted

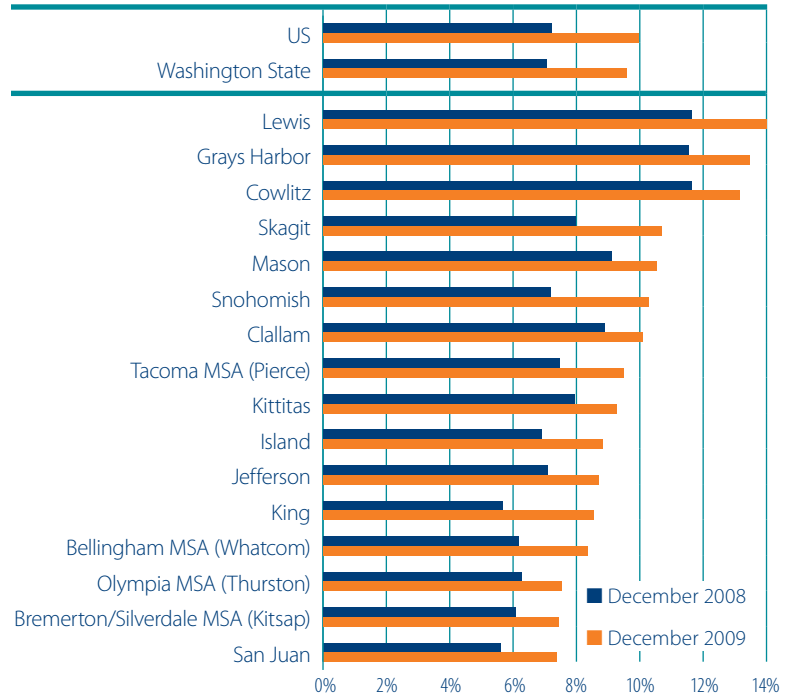
### PERCENT CHANGE IN ANNUAL EMPLOYMENT



### UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	79,400	8.3%
Bremerton/Silverdale MSA (Kitsap)	82,900	7.6%
Clallam	22,620	10.1%
Cowlitz	34,900	13.3%
Grays Harbor	22,560	13.4%
Island	15,790	8.8%
Jefferson	8,630	8.9%
King	1,141,900	8.5%
Kittitas	13,930	9.4%
Lewis	22,890	14.1%
Mason	13,260	10.7%
Olympia MSA (Thurston)	100,100	7.6%
San Juan	5,200	7.4%
Skagit	43,400	10.8%
Snohomish	245,700	10.3%
Tacoma MSA (Pierce)	267,300	9.5%

### UNEMPLOYMENT RATE COMPARISON



## REGIONAL REAL ESTATE

The fourth quarter of 2009 saw 14,782 resale transactions throughout our market area. Although this is approximately 2 percent below the third quarter of 2009, it is an impressive 49 percent above the fourth quarter of 2008, when transactions reached historic lows. Annual resale transactions declined minimally between 2008 and 2009, dropping approximately 3 percent to 50,065.

For the first time since publication of this report began in the spring of 2008, we actually saw transactional velocities increase on a year-over-year basis in four of the counties analyzed. Kitsap saw the largest increase, with sales up by 4 percent. This was followed by Island, Lewis and Snohomish counties, where sales increased by 4, 3 and 2 percent, respectively. I would add that Pierce County also increased, but only by 3 units.

Despite transactions remaining essentially flat from 2008 to 2009, prices did show significant declines, with the median annual resale price falling by 10 percent to \$275,000. On an annual basis, single-family homes saw a larger decline, falling 11 percent, but condominium prices also fell significantly, decreasing by 7 percent. Nevertheless, the rate of decline in transaction prices has decreased throughout 2009, a trend I expect to continue until we see prices turn positive later in 2010.

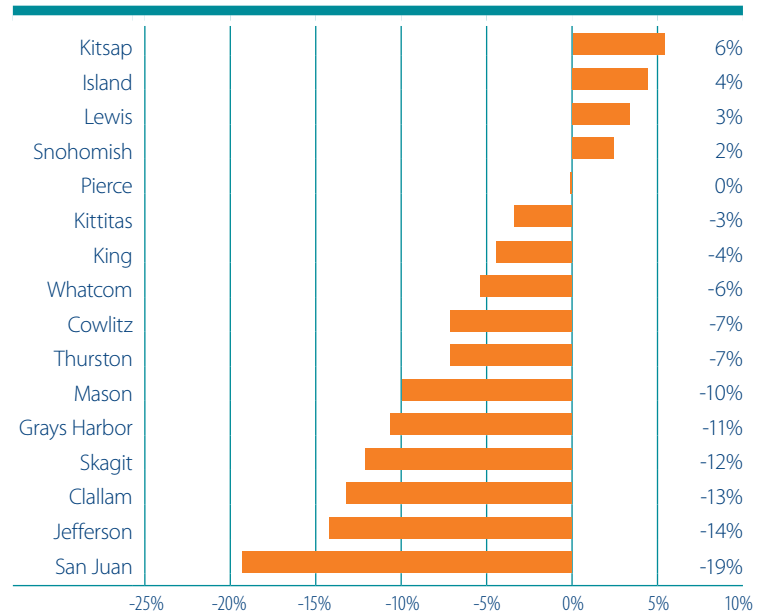
Prices in the counties that make up the study area generally reflected the negative overall trend, with only three counties showing positive price appreciation. Jefferson County showed the greatest year-over-year increase, rising 34 percent, while Kittitas and Kitsap Counties increased by 6 and 8 percent, respectively. However, it is important to note that the limited number of transactions represented by the Jefferson and Kittitas statistics makes

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### CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date Dec 09	Year-to-Date Dec 08
King	20,199	21,133
Snohomish	7,975	7,842
Pierce	8,431	8,428
Kitsap	2,703	2,547
Mason	580	646
Skagit	1,049	1,192
Grays Harbor	664	749
Lewis	554	539
Cowlitz	661	707
Thurston	2,938	3,175
San Juan	127	157
Island	915	881
Kittitas	391	405
Jefferson	252	292
Whatcom	2,312	2,460
Clallam	314	361

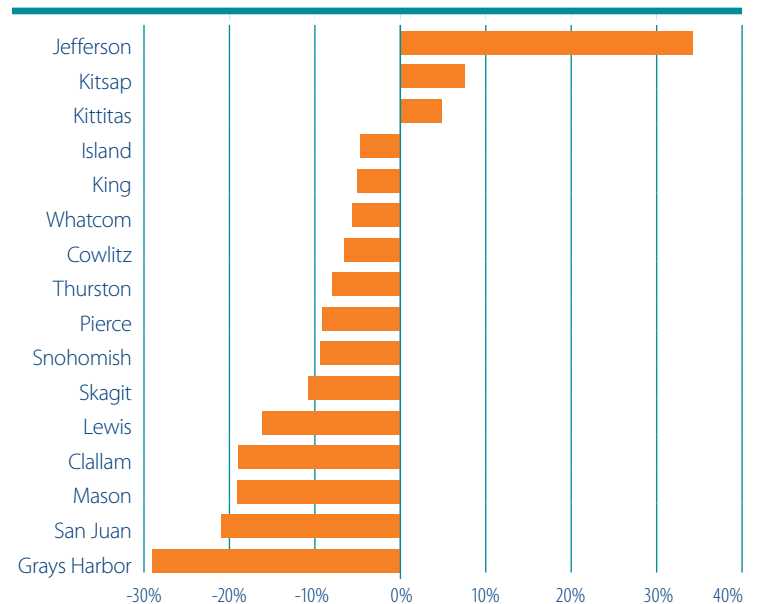
### PERCENT CHANGE IN YTD CLOSED SALES



### SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Dec 08 - Dec 09	Net Growth (in thousands of dollars)
King	-5.6%	-20.7
Snohomish	-8.8%	-27.0
Pierce	-8.5%	-20.0
Kitsap	8.3%	18.4
Mason	-18.5%	-35.3
Skagit	-11.7%	-29.8
Grays Harbor	-28.8%	-44.7
Lewis	-16.9%	-32.5
Cowlitz	-7.1%	-11.0
Thurston	-8.3%	-20.7
San Juan	-21.5%	-98.0
Island	-4.5%	-12.5
Kittitas	5.5%	11.7
Jefferson	34.3%	82.3
Whatcom	-6.0%	-15.0
Clallam	-18.4%	-46.0

### HOME PRICE GROWTH RATE



them prone to wild fluctuations. King, Snohomish and Pierce Counties all showed negative annual appreciation, falling 5.6, 8.8 and 8.5 percent, respectively. Quarter-over-quarter statistics for these areas are more promising, with King County showing positive appreciation of 0.3 percent and Snohomish and Pierce Counties falling only 0.7 and 3 percent, respectively.

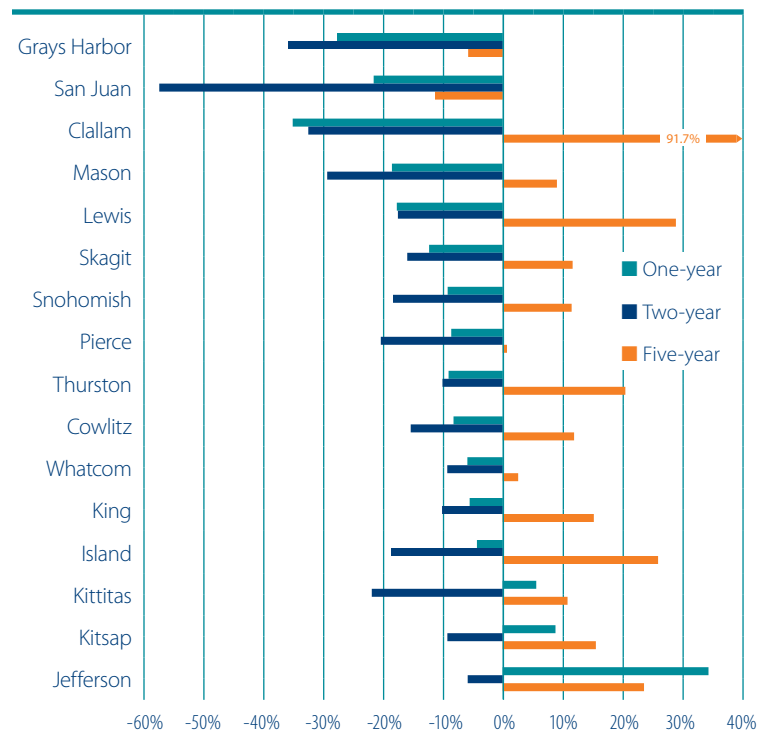
The significant declines that have been seen in prices of active units do suggest that seller sentiments are finally catching up with the state of the market. Washington State median listing prices have declined by 12 percent year-over-year, and 8 percent on a quarterly basis. Each county has seen annual declines in listing prices, with the least severe—approximately 2 percent—seen in San Juan County and the most severe—approximately 15 percent—seen in King and Snohomish Counties. It is interesting to note that quarterly declines make up for much of the annual decrease, with King County median listing prices falling 8.5 percent over the past 3 months. This indicates that the necessary correction in seller sentiments is now finally occurring, which will bring prices to a level which will encourage transactions.

**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	\$350,000	0.3%	-5.6%	-10.1%	15.3%
Snohomish	\$280,000	-0.7%	-8.8%	-17.6%	12.0%
Pierce	\$215,000	-3.0%	-8.5%	-20.4%	0.2%
Kitsap	\$239,900	-3.9%	8.3%	-9.6%	16.5%
Mason	\$156,000	-14.0%	-18.5%	-29.9%	8.1%
Skagit	\$225,250	-3.7%	-11.7%	-14.0%	10.7%
Grays Harbor	\$110,306	-17.7%	-28.8%	-36.6%	-6.1%
Lewis	\$159,500	-4.8%	-16.9%	-16.4%	27.6%
Cowlitz	\$145,000	-3.3%	-7.1%	-16.1%	12.1%
Thurston	\$229,218	-5.3%	-8.3%	-10.0%	20.5%
San Juan	\$357,000	-25.6%	-21.5%	-57.3%	-12.2%
Island	\$265,000	-5.4%	-4.5%	-18.5%	26.3%
Kittitas	\$226,720	2.8%	5.5%	-22.1%	12.9%
Jefferson	\$322,000	40.0%	34.3%	-6.7%	23.8%
Whatcom	\$235,000	-0.6%	-6.0%	-9.6%	2.2%
Clallam	\$161,000	-30.6%	-35.6%	-33.2%	91.7%

\* Year over year from most recent month surveyed

**MEDIAN HOME PRICE ESCALATION RATE**



**CONCLUSIONS**

There were continued reductions in sale prices in the fourth quarter and the rate of decline continues to slow, but it is clear that the resale market has not quite yet found its bottom. Although fourth quarter sales were consistent with those seen in the third quarter, standing inventory did increase to approximately 7 months when based on a ratio of pending sales to active listings.

I expect that we will see a boost in home sales through the spring now that the Homebuyer Tax Credit has been renewed. Also adding credence to this expectation is the fact that the credit was extended to repeat buyers, instead of being limited to first-time homeowners. As interested buyers move to sign their purchase and sale agreements by April 30th, I believe that we can expect to see another bump in sales, which should bring inventory back towards the 6-month barrier that is indicative of a balanced market.

**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. Mr. Garner is also available for speaking engagements. Please call 206.442.9200 or email [ge.admin@gardnereconomics.com](mailto:ge.admin@gardnereconomics.com) for more information.

