

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

“Signs of Stability” appears to be my current key phrase relative to the economy, as well as our region’s housing market.

Data for the first quarter of this, a new decade, has given me a decided “glass half full” attitude, which is rather refreshing as we emerge from the bottom of a heinous recession that has affected real estate more than just about anything else. The stock market appears to be forging ahead, albeit with some not-surprising turbulence; housing markets across most of the U.S. are starting to show signs of stability, with certain regions even showing some growth in prices. Employment across the U.S. is also showing some tepid signs of a recovery, and we appear to no longer be hemorrhaging jobs at the rate we saw a year ago.

The local employment situation continues to improve and at a pace that is better than the U.S. as a whole. Although most of the region continued to lose jobs in the first part of the last quarter, every area examined gained in employment between February and March. The largest gains were, not surprisingly, in the Central Puget Sound area and, although many areas showed very modest increases, I am pleased that my suggestion late last year that we were on the cusp of job creation has proved to be correct.

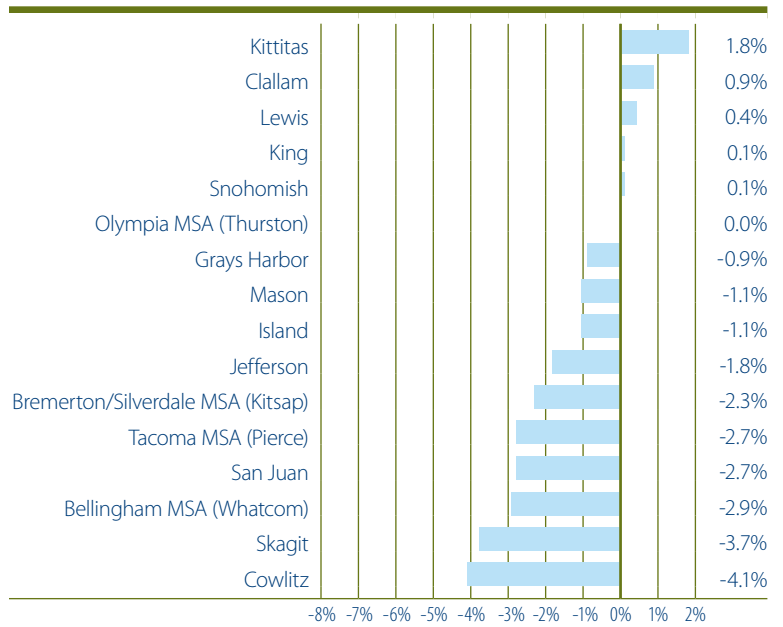
It is my anticipation that we will continue to see an improving employment situation as we move forward through 2010. Growth will not be stellar, and we will continue to see the construction sector acting as an anchor to our growth, but we will see employment growth in 2010. This is a critical base to stability in our region’s housing market.

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Mar 09 - Mar 10	Growth Rate
Bellingham MSA (Whatcom)	-2,950	-2.9%
Bremerton/Silverdale MSA (Kitsap)	-2,740	-2.3%
Clallam	250	0.9%
Cowlitz	-1,630	-4.1%
Grays Harbor	-250	-0.9%
Island	-340	-1.1%
Jefferson	-220	-1.8%
King	1,450	0.1%
Kittitas	340	1.8%
Lewis	120	0.4%
Mason	-250	-1.1%
Olympia MSA (Thurston)	0	0.0%
San Juan	-200	-2.7%
Skagit	-1,950	-3.7%
Snohomish	490	0.1%
Tacoma MSA (Pierce)	-9,700	-2.7%

Not Seasonally Adjusted

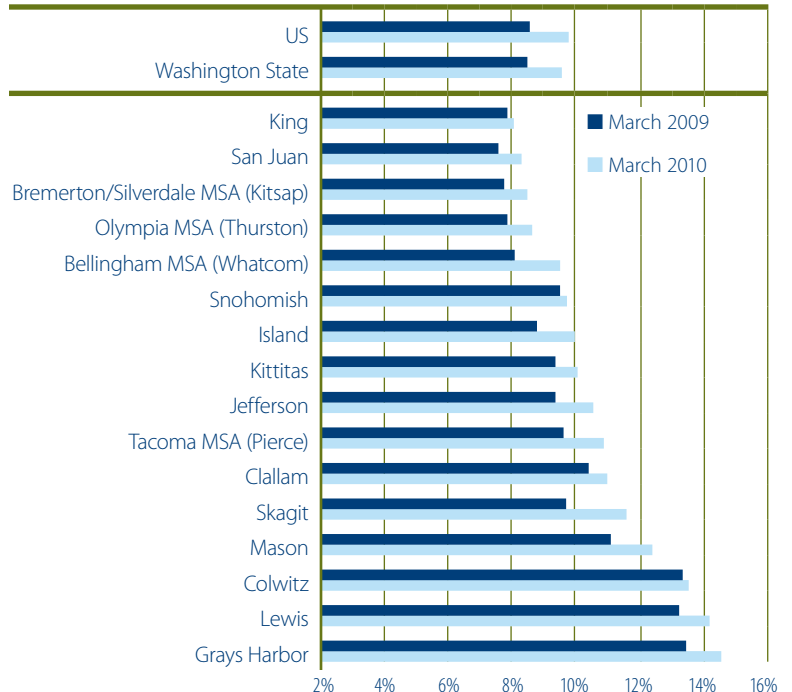
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	98,970	9.5%
Bremerton/Silverdale MSA (Kitsap)	114,300	8.5%
Clallam	27,470	11.0%
Colwitz	37,790	13.5%
Grays Harbor	27,050	14.5%
Island	29,970	10.0%
Jefferson	11,680	10.5%
King	1,023,810	8.1%
Kittitas	19,340	10.1%
Lewis	27,800	14.2%
Mason	22,350	12.3%
Olympia MSA (Thurston)	123,190	8.6%
San Juan	7,260	8.3%
Skagit	51,020	11.5%
Snohomish	347,710	9.7%
Tacoma MSA (Pierce)	354,470	10.8%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

In the first quarter of 2010, our market transacted 10,924 units throughout the region. This represents a very impressive increase of 39 percent over the first quarter of 2009. Gains were seen throughout the region, with the largest coming in Kittitas, San Juan and Mason Counties, and the smallest in Thurston, Jefferson and Pierce Counties. That being said, even the smallest increases were still in double digits.

This across-the-board increase in transactional volume is further proof that we are emerging, albeit slowly, from the deepest downturn in the housing market on record.

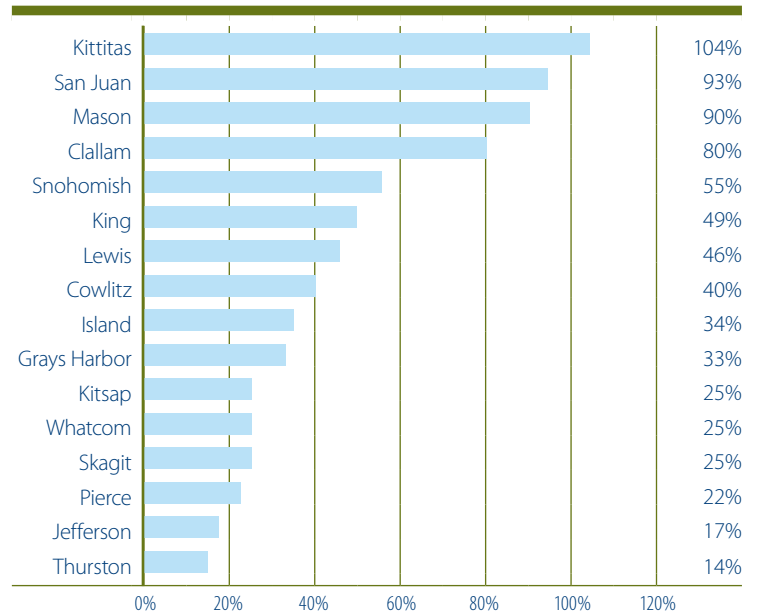
When we turn our attention to price, we get some answers as to why velocities have increased. Across the region prices are down by 20.5 percent, but if we remove the extremely volatile San Juan County, prices are down by just 3.5 percent, suggesting that buyers believe that the market has formed a bottom and that now is the time – given their own individual circumstances – to move forward with purchasing.

In the past 12-month period prices have risen in 4 of the 16 counties in this analysis, which is up from the 3 counties where prices rose through 2009. Looking at more recent transactions, prices were either up or static in 6 of the 14 counties over the fourth quarter of 2009. There is a great disparity in pricing changes, which is to be expected from such a diverse region as ours. The greatest gains were found in Mason County, where prices were up by 20 percent, and the greatest declines were in San Juan County, where prices were down by 70 percent. (As I have suggested before, the Islands are notoriously volatile relative to price.)

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date March 2010	Year-to-Date March 2009
King	4,485	3,020
Snohomish	1,882	1,218
Pierce	1,745	1,427
Kitsap	566	451
Mason	131	69
Skagit	215	172
Grays Harbor	154	116
Lewis	127	87
Cowlitz	162	116
Thurston	612	538
San Juan	27	14
Island	194	145
Kittitas	98	48
Jefferson	49	42
Whatcom	450	360
Clallam	27	15

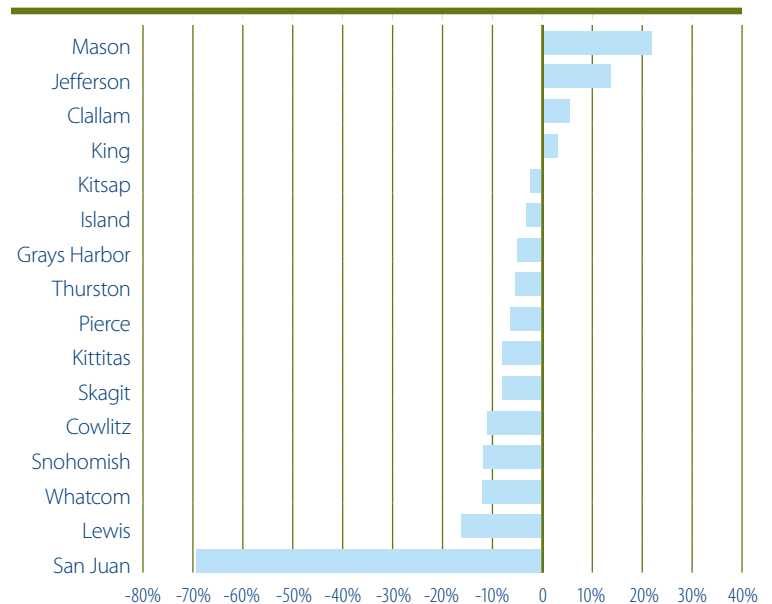
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Mar 09 - Mar 10	Net Growth (in thousands of dollars)
King	2.7%	9.0
Snohomish	-12.1%	-37.0
Pierce	-5.9%	-13.4
Kitsap	-2.6%	-6.5
Mason	21.5%	28.0
Skagit	-8.8%	-21.1
Grays Harbor	-5.1%	-7.3
Lewis	-16.3%	-27.0
Cowlitz	-11.1%	-20.0
Thurston	-5.2%	-12.5
San Juan	-69.9%	-812.5
Island	-3.4%	-8.5
Kittitas	-7.8%	-16.1
Jefferson	13.1%	31.3
Whatcom	-12.5%	-32.1
Clallam	5.7%	13.1

HOME PRICE GROWTH RATE

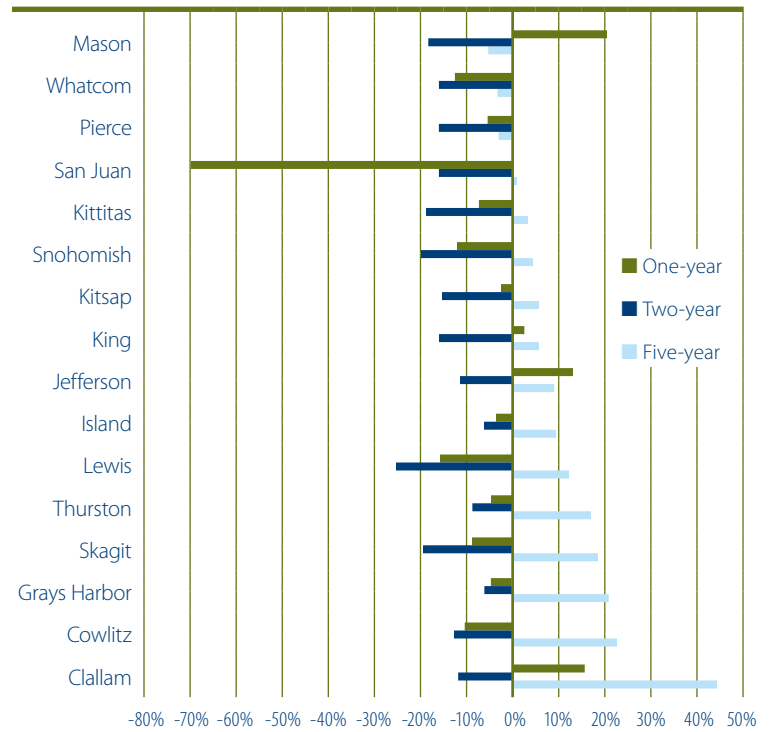


RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
King	\$343,950	-1.7%	2.7%	-15.1%	5.8%
Snohomish	\$268,000	-4.3%	-12.1%	-20.0%	4.0%
Pierce	\$215,000	0.0%	-5.9%	-16.8%	-2.3%
Kitsap	\$240,000	0.0%	-2.6%	-13.6%	5.4%
Mason	\$158,000	1.3%	21.5%	-18.6%	-5.7%
Skagit	\$218,943	-2.8%	-8.8%	-19.5%	18.1%
Grays Harbor	\$135,000	22.4%	-5.1%	-7.5%	21.1%
Lewis	\$139,000	-12.9%	-16.3%	-25.5%	13.0%
Cowlitz	\$160,000	10.3%	-11.1%	-13.3%	23.2%
Thurston	\$227,500	-0.7%	-5.2%	-9.0%	16.7%
San Juan	\$350,000	-2.0%	-69.9%	-15.0%	0.4%
Island	\$240,000	-9.4%	-3.4%	-7.7%	9.5%
Kittitas	\$190,550	-16.0%	-7.8%	-18.9%	3.3%
Jefferson	\$270,000	-16.1%	13.1%	-12.8%	8.0%
Whatcom	\$224,900	-4.3%	-12.5%	-15.1%	-3.9%
Clallam	\$243,000	50.9%	16.6%	-11.5%	44.0%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

It is my belief that interest rates are sure to move upward this year following the Federal Reserve decision to stop buying mortgage-backed securities, and it is my expectation that we will end 2010 with 30 year fixed conforming rates closer to 6 percent than 5. This should function to get buyers off the fence and into transacting.

I believe that a bottom is being formed relative to house values and that, unless we see a massive flood of distressed houses coming to the market (which is, in my opinion, unlikely), we should see continued stability and, ultimately, growth in values in our region.

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. Gardner is also available for speaking engagements. Please call 206.442.9200 or email ge.admin@gardnereconomics.com for more information.

