

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

Last quarter I said that “Signs of Stability” was my key phrase relative to the economy, as well as our region’s housing market, and that appears to continue to be the case. It is clear that we are making progress, albeit at somewhat of a snail’s pace!

Local employment conditions continue to improve and I am glad to state that, on a year-over-year basis, there was just one county, Jefferson, which saw an increase in its unemployment rate. The greatest improvement was found in Cowlitz County, where the rate dropped from 12.9 to 11.9 percent. Other noticeable improvements were found in Whatcom, Kitsap, Lewis and Pierce counties, all of which saw their unemployment rates drop by 0.7 percent.

Of course, reductions in the overall unemployment rate do not tell the whole story. In fact, declining unemployment rates can have little, if any, relevance to employment gains on a year-over-year basis; in many cases individuals either quit looking for work or dropped off the pay rolls as their benefits expired. That being said, when comparing this quarter’s figures to those of last quarter, I found that, across the board, our state gained jobs in the second quarter. This was led, not surprisingly, by King County, whose pay rolls grew by over 25,000 jobs. Pierce County was second, with growth of 5,200 jobs; other gains in the region were far more modest, but gains all the same.

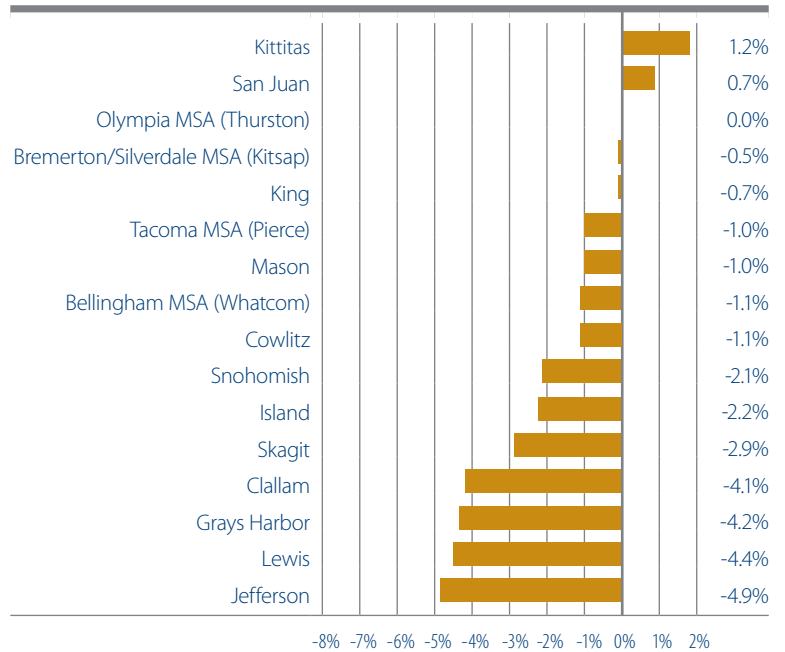
It remains my anticipation that this recent growth pattern will continue into the second half of this year. I do not expect to see drastic improvement, as businesses both large and small remain wary of hiring in the current uncertain economic environment. How will this affect our real estate market? Well, the most pronounced effect will be on the new construction sector that relies on job growth and new household creation to fill their homes. On the resale front, we are certainly affected by new employees moving into our region, but more important is the security of existing employment and its effect on the decision making of buyers. If they are comfortable in their own situations, it makes the important decisions relative to buying a house just a little bit easier.

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Jun 09 - Jun 10	Growth Rate
Bellingham MSA (Whatcom)	-900	-1.1%
Bremerton/Silverdale MSA (Kitsap)	-400	-0.5%
Clallam	-950	-4.1%
Cowlitz	-400	-1.1%
Grays Harbor	-960	-4.2%
Island	-350	-2.2%
Jefferson	-430	-4.9%
King	-7,800	-0.7%
Kittitas	170	1.2%
Lewis	-1,050	-4.4%
Mason	-140	-1.0%
Olympia MSA (Thurston)	0	0.0%
San Juan	40	0.7%
Skagit	-1,300	-2.9%
Snohomish	-5,200	-2.1%
Tacoma MSA (Pierce)	-2,600	-1.0%

Not Seasonally Adjusted

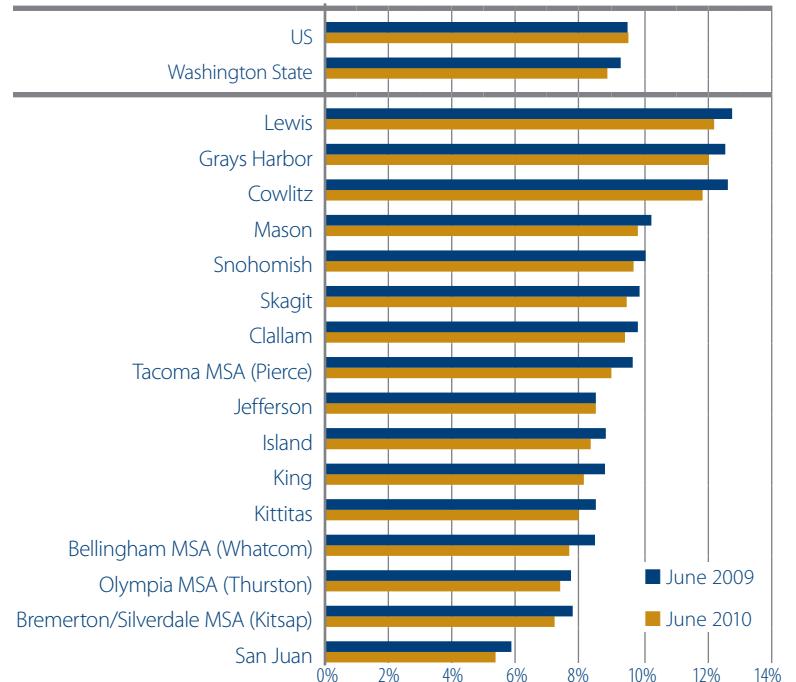
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	80,600	7.8%
Bremerton/Silverdale MSA (Kitsap)	83,900	7.2%
Clallam	22,270	9.3%
Cowlitz	35,700	11.9%
Grays Harbor	22,130	12.0%
Island	15,640	8.4%
Jefferson	8,350	8.6%
King	1,154,500	8.2%
Kittitas	14,900	8.0%
Lewis	22,940	12.1%
Mason	13,410	9.9%
Olympia MSA (Thurston)	100,400	7.3%
San Juan	6,020	5.4%
Skagit	43,900	9.4%
Snohomish	243,600	9.6%
Tacoma MSA (Pierce)	268,300	9.0%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Through the second quarter of 2010, our market saw 22,247 transactions—an increase of a very pleasing 34 percent over the first half of 2009. It appears as if every positive statement I make, however, has to be tempered, as the gain in sales, especially in the second quarter, was heavily driven by the tax credit and questions remain as to whether this pace of improvement can be sustained, or whether we will see a slowdown in the second half of 2010.

In keeping with my comments relative to the employment situation, when I look at transactional prices across the region, I note that annualized price growth was seen in six of our counties, up from four in our last report. We are seeing improvement, but the increase is painstakingly slow.

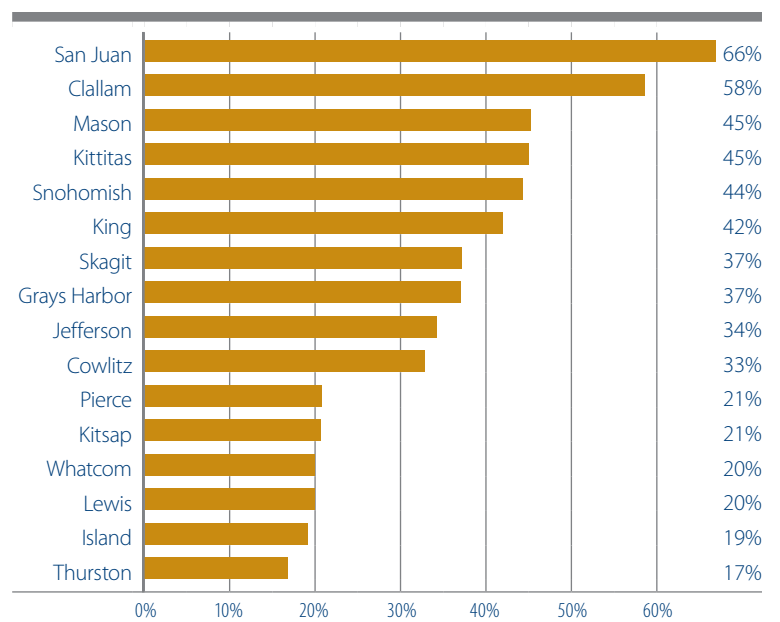
The greatest rate of house price appreciation was found in Island County, where prices were up by over 12 percent from June of 2009. This was followed by Jefferson (9.3%), Cowlitz (6.4%), Skagit (5.0%), Kitsap (2.4%) and King (2.3%). Prices declined the most in the highly volatile San Juan County (-34.2%), and this was followed by Kittitas (-19.3%), Clallam (-12.9%) and Mason (-12.6%) counties.

In all, I would suggest that our report card is improving. I do like to look at more recent quarter-over-quarter data and would note that over half of our counties demonstrated improving transactional prices when compared to the first quarter of this year.

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date June 2010	Year-to-Date June 2009
King	9,496	6,686
Snohomish	3,259	2,269
Pierce	3,595	2,963
Kitsap	1,190	985
Mason	278	192
Skagit	492	358
Grays Harbor	339	248
Lewis	266	221
Cowlitz	366	275
Thurston	1,058	904
San Juan	53	32
Island	389	327
Kittitas	188	130
Jefferson	126	94
Whatcom	981	815
Clallam	171	108

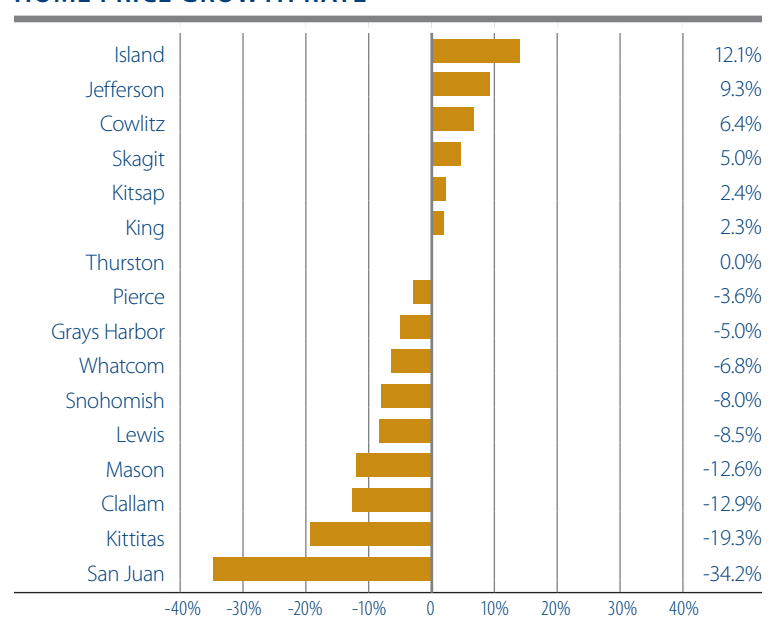
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Jun 09 - Jun 10	Net Growth (in thousands of dollars)
King	2.3%	10.0
Snohomish	-8.0%	-25.0
Pierce	-3.6%	-9.0
Kitsap	2.4%	7.0
Mason	-12.6%	-25.0
Skagit	5.0%	13.0
Grays Harbor	-5.0%	-7.0
Lewis	-8.5%	-14.0
Cowlitz	6.4%	11.0
Thurston	0.0%	0.0
San Juan	-34.2%	-187.0
Island	12.1%	35.0
Kittitas	-19.3%	-49.0
Jefferson	9.3%	22.0
Whatcom	-6.8%	-19.0
Clallam	-12.9%	-35.0

HOME PRICE GROWTH RATE



Median Prices

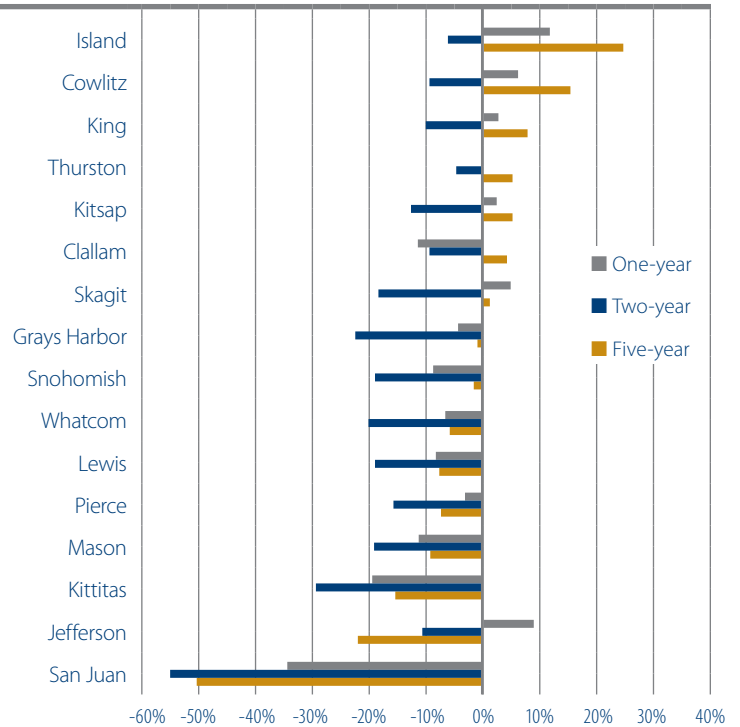
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
King	\$450,000	8.7%	2.3%	-10.0%	7.7%
Snohomish	\$286,000	-1.4%	-8.0%	-19.2%	-2.4%
Pierce	\$242,000	5.2%	-3.6%	-16.6%	-8.0%
Kitsap	\$294,000	6.9%	2.4%	-13.3%	5.4%
Mason	\$174,000	-17.5%	-12.6%	-18.3%	-9.4%
Skagit	\$273,000	8.3%	5.0%	-19.0%	1.9%
Grays Harbor	\$134,000	-6.3%	-5.0%	-22.1%	-0.7%
Lewis	\$151,000	2.7%	-8.5%	-19.3%	-7.4%
Cowlitz	\$183,000	4.6%	6.4%	-9.9%	15.1%
Thurston	\$251,000	6.8%	0.0%	-4.9%	5.5%
San Juan	\$359,000	-0.8%	-34.2%	-55.7%	-51.1%
Island	\$325,000	8.3%	12.1%	-6.6%	24.5%
Kittitas	\$205,000	-10.1%	-19.3%	-29.1%	-16.7%
Jefferson	\$259,000	-16.2%	9.3%	-10.7%	-22.7%
Whatcom	\$260,000	3.6%	-6.8%	-20.0%	-6.1%
Clallam	\$237,000	-8.8%	-12.9%	-9.9%	4.9%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

Mortgage rates remain at all-time lows and are defying, for the time being, my forecast for them to rise this year. This is due to a flight to the relative safety of the dollar by many European nations. That being said, I see this pace of debt purchase slowing, and that will certainly add upward pressure to rates.

Overall, I would say that this quarter's report card is a solid 'C'. I can see improvement over the past quarter, but we are not out of the woods yet. Foreclosures in our state are still elevated and that is applying pressure to prices. Transactions are up nicely, but pending sales have slowed dramatically following expiration of the tax credit, and the next quarter will tell us how much future demand we have stolen.

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 an in-house economist.

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.

