

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

Sometimes it is difficult to see the “forest for the trees” when we look at the reams of data that are thrown at us on a daily basis. We can become fixated on the very latest news, and it is hard to remember the numbers that preceded it. I like to compare and contrast the previous quarters’ data with the current figures for patterns, and I am happy to say that I continue to see improvement in key areas that bodes well for the future, if not the present.

Looking at our current employment situation, we have nine counties that are demonstrating positive year-over-year employment gains (versus three in the second quarter). Several more are flirting with positive employment gains, and I would be surprised if we weren’t wholly positive by the middle of 2011.

When we look at the unemployment rate, several of our counties saw an increase relative to a year ago, but this is as much a function of workers renewing their efforts in looking for work than it is a decline in jobs. That being said, when we look at the current unemployment rate versus the past quarter, we see improvement across the board. It is generally very modest improvement, but improvement all the same.

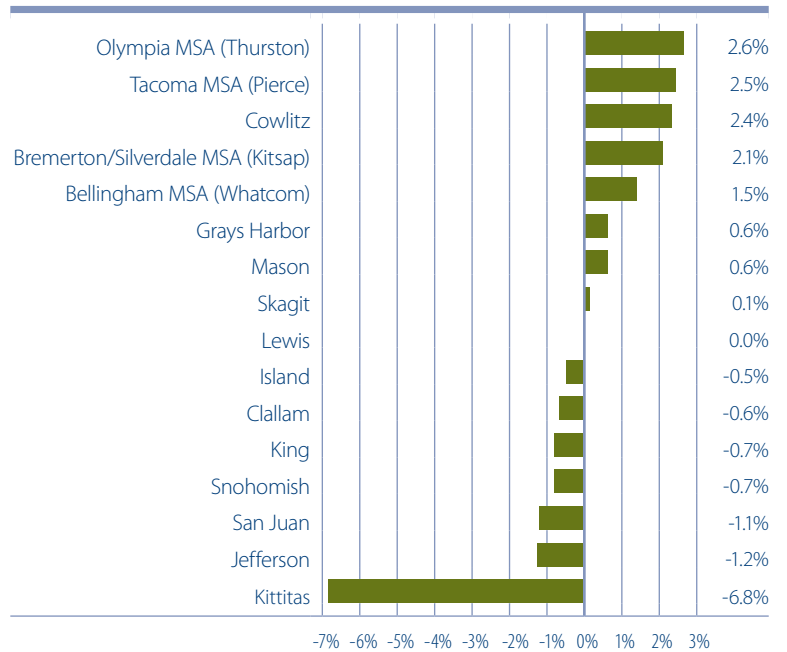
I said in the last quarter’s report that I anticipated modest improvement as we move toward the end of the year and, so far, that has proven to be the case. One of the most important factors in any real estate recovery is an improving employment situation. When the public is comfortable with their own employment situation, it allows them to feel more comfortable with large decisions such as whether to buy or sell housing.

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Sept 09 - Sept 10	Growth Rate
Bellingham MSA (Whatcom)	1,390	1.5%
Bremerton/Silverdale MSA (Kitsap)	2,450	2.1%
Clallam	-170	-0.6%
Cowlitz	930	2.4%
Grays Harbor	160	0.6%
Island	-160	-0.5%
Jefferson	-150	-1.2%
King	-7,500	-0.7%
Kittitas	-1,300	-6.8%
Lewis	-10	0.0%
Mason	130	0.6%
Olympia MSA (Thurston)	3,110	2.6%
San Juan	-90	-1.1%
Skagit	50	0.1%
Snohomish	-2,550	-0.7%
Tacoma MSA (Pierce)	9,050	2.5%

Not Seasonally Adjusted

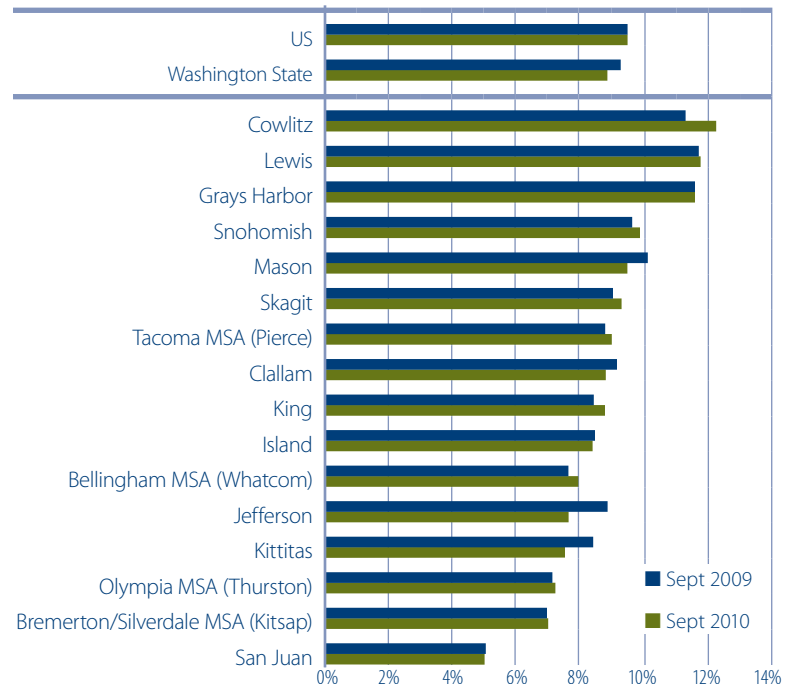
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	97,030	7.7%
Bremerton/Silverdale MSA (Kitsap)	116,980	7.0%
Clallam	27,130	9.2%
Cowlitz	39,480	11.2%
Grays Harbor	27,290	11.5%
Island	29,610	8.5%
Jefferson	11,860	8.8%
King	1,008,230	8.4%
Kittitas	17,860	8.4%
Lewis	27,520	11.7%
Mason	22,470	10.1%
Olympia MSA (Thurston)	122,410	7.2%
San Juan	8,250	5.5%
Skagit	52,520	9.1%
Snohomish	342,420	9.6%
Tacoma MSA (Pierce)	364,290	8.8%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Through the third quarter of 2010, our market saw 32,289 transactions -- an increase of 10 percent over the same timeframe in 2009. I speculated last quarter as to whether this was a function of the tax credit and if we would see a slowdown once this had burned off. A 10 percent increase is certainly significant, but the growth rate has slowed in the third quarter. On a year-over-year basis, every county saw improving sales velocities, other than Whatcom and Lewis counties, where declines were very modest.

When we look at home price growth relative to September of 2009, we see that there are more counties in the positive column than the negative one, another pleasing statistic.

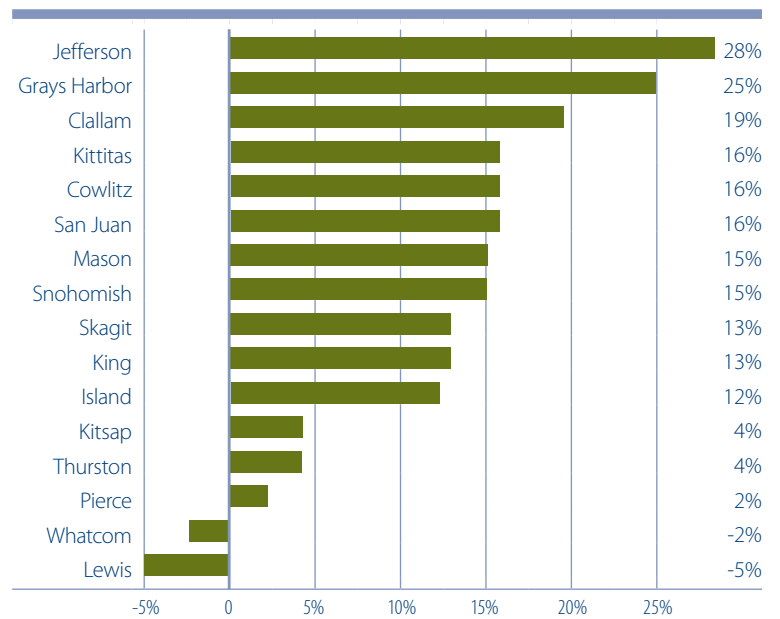
The greatest rate of house price appreciation was found in Lewis County, where prices were up by over 24 percent from September of 2009. This was followed by San Juan (20.6%), Kittitas (15.7%), Whatcom (14.0%) and Jefferson (12.1%) counties. Prices declined the most in Skagit County (-21%), followed by Island (-7.9%), Grays Harbor (-7.2%) and Snohomish (-3.1%) counties.

Over time, we see that nine of sixteen counties in our region showed positive price growth over the second quarter of this year, and seven are higher than a year ago. It is not surprising to see that we are down across the board when compared to prices of two years ago.

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date Sept 2010	Year-to-Date Sept 2009
King	13,568	12,018
Snohomish	4,733	4,105
Pierce	5,246	5,131
Kitsap	1,749	1,674
Mason	414	359
Skagit	734	647
Grays Harbor	492	394
Lewis	366	385
Cowlitz	526	452
Thurston	1,602	1,538
San Juan	87	75
Island	604	537
Kittitas	284	244
Jefferson	204	159
Whatcom	1,415	1,447
Clallam	265	222

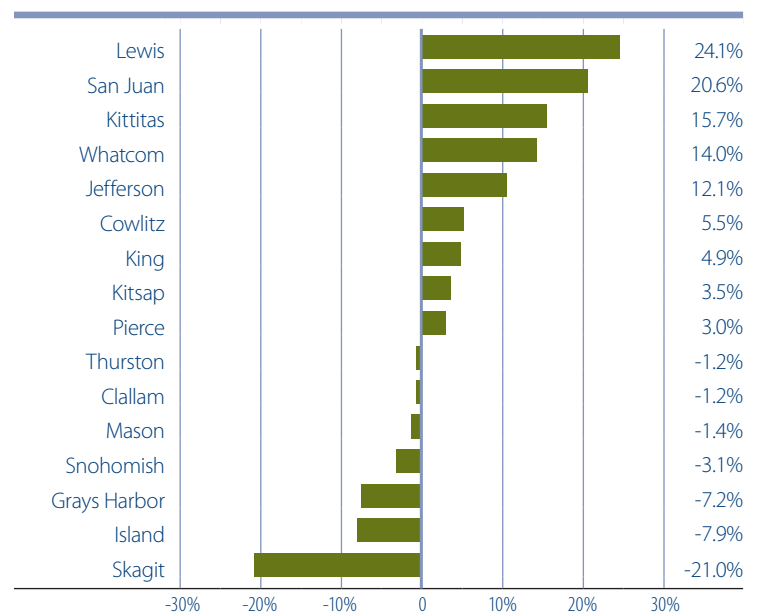
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Sept 09 - Sept 10	Net Growth (in thousands of dollars)
King	4.9%	20.0
Snohomish	-3.1%	-9.0
Pierce	3.0%	7.0
Kitsap	3.5%	10.0
Mason	-1.4%	-3.0
Skagit	-21.0%	-60.0
Grays Harbor	-7.2%	-11.0
Lewis	24.1%	40.0
Cowlitz	5.5%	9.0
Thurston	-1.2%	-3.0
San Juan	20.6%	96.0
Island	-7.9%	-26.0
Kittitas	15.7%	37.0
Jefferson	12.1%	32.0
Whatcom	14.0%	36.0
Clallam	-1.2%	-3.0

HOME PRICE GROWTH RATE



Average \$\$s

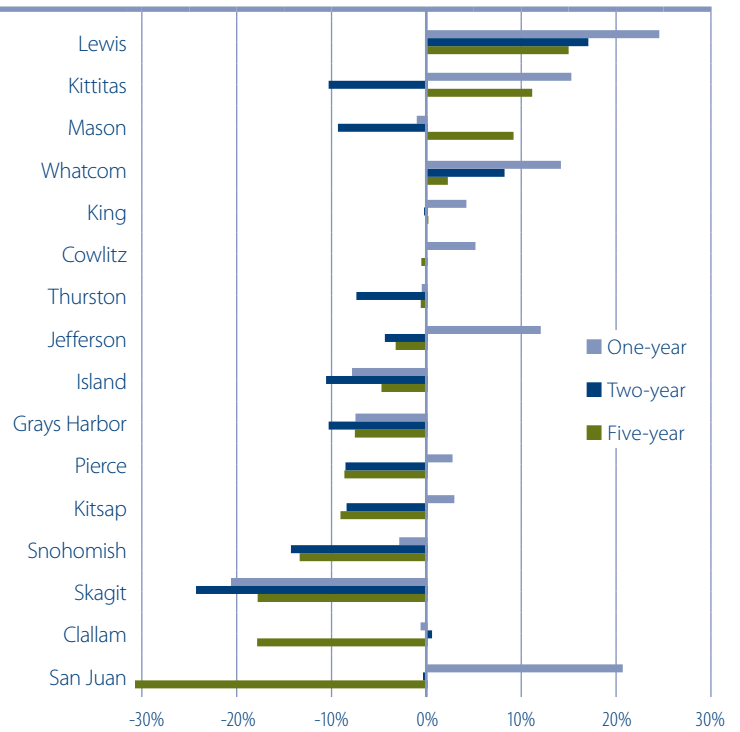
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
King	\$429,000	-4.7%	4.9%	-0.7%	0.5%
Snohomish	\$281,000	-1.7%	-3.1%	-14.1%	-13.3%
Pierce	\$243,000	0.4%	3.0%	-8.3%	-8.6%
Kitsap	\$292,000	-0.7%	3.5%	-8.2%	-9.0%
Mason	\$207,000	19.0%	-1.4%	-9.2%	9.5%
Skagit	\$226,000	-17.2%	-21.0%	-24.7%	-17.8%
Grays Harbor	\$141,000	5.2%	-7.2%	-10.2%	-7.8%
Lewis	\$206,000	36.4%	24.1%	17.0%	15.1%
Cowlitz	\$172,000	-6.0%	5.5%	0.0%	-1.1%
Thurston	\$255,000	1.6%	-1.2%	-7.3%	-1.5%
San Juan	\$561,000	56.3%	20.6%	-0.7%	-31.0%
Island	\$303,000	-6.8%	-7.9%	-11.4%	-5.3%
Kittitas	\$272,000	32.7%	15.7%	-10.8%	11.9%
Jefferson	\$297,000	14.7%	12.1%	-4.8%	-3.9%
Whatcom	\$293,000	12.7%	14.0%	8.5%	2.4%
Clallam	\$238,000	0.4%	-1.2%	1.3%	-17.9%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

It is now almost certain that the Federal Reserve will fire up the printing presses again in a second round of quantitative easing that is sure to keep mortgage rates low well into 2011. In as much as I consider this a positive for real estate markets across the U.S., it shows that our growth as a nation remains below par.

I do not wish to sound like a broken record, but it is hard not to at this point in the real estate cycle. We continue to see indications of stability relative to transactional prices, and listings are leveling off—albeit at elevated numbers that I would like to see lower. Pending and closed sales appear to be bumping along the bottom and, although they are lower than a year ago, they appear not to be showing further downward pressure. I think that this is a pattern that will remain in place for the balance of the year.

It is clear that buyers are still on the fence and that they are looking at headline numbers that suggest there is no hurry to proceed with a purchase. Mortgage rates are highly unlikely to rise significantly anytime soon and price growth is isolated, therefore not providing enough impetus for potential buyers to hurry in their decision-making. This is a pattern that will persist for the time being but, on the whole, I will take stability over a declining market any day of the week.

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; chairs the Board of Trustees 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.

