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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 brokers. 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 may contain 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

Recently, I have been feeling a little like Bill Murray's character from the movie "Groundhog Day." I say this because the tone of my commentary has become very repetitive over the past year with use of terms such as "slowly improving" or "little change."

The fact of the matter is, that having now reviewed Washington State's employment data for the whole of 2010, it appears as if I will have to continue the use of these terms for a little longer! Slow improvement is still being seen and we are not hemorrhaging jobs in anything like the same manner as seen in 2008 and 2009, but the improvement is very geographically selective, and at very modest rates.

When we look at the unemployment rate, ten of the counties analyzed saw improving unemployment rates, while six areas experienced worsening conditions relative to employment rates.

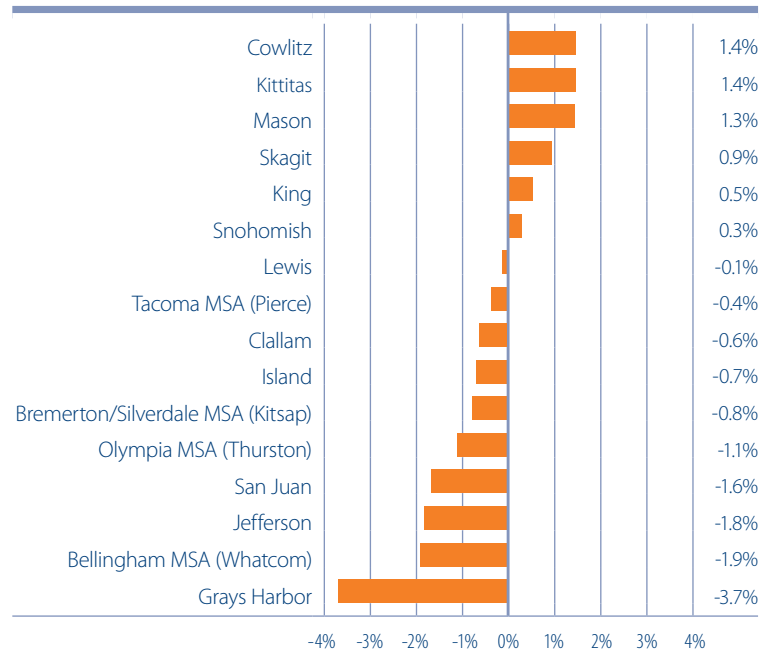
Not surprisingly, King County saw the largest increase in overall employment with the addition of 5,200 positions, and the greatest losses were found in Whatcom County, where employment declined by 1,500. On a percentage basis, the greatest growth was found in Cowlitz County (+1.4 percent) and the greatest decline was found in Grays Harbor County, where employment dropped by 3.7 percent.

## NON AGRICULTURE EMPLOYMENT SITUATION

| County                            | Growth Dec 09 - Dec 10 | Growth Rate |
|-----------------------------------|------------------------|-------------|
| Bellingham MSA (Whatcom)          | -1,500                 | -1.9%       |
| Bremerton/Silverdale MSA (Kitsap) | -700                   | -0.8%       |
| Clallam                           | -140                   | -0.6%       |
| Cowlitz                           | 500                    | 1.4%        |
| Grays Harbor                      | -810                   | -3.7%       |
| Island                            | -110                   | -0.7%       |
| Jefferson                         | -150                   | -1.8%       |
| King                              | 5,200                  | 0.5%        |
| Kittitas                          | 200                    | 1.4%        |
| Lewis                             | -30                    | -0.1%       |
| Mason                             | 170                    | 1.3%        |
| Olympia MSA (Thurston)            | -1,100                 | -1.1%       |
| San Juan                          | -80                    | -1.6%       |
| Skagit                            | 400                    | 0.9%        |
| Snohomish                         | 700                    | 0.3%        |
| Tacoma MSA (Pierce)               | -1,000                 | -0.4%       |

Not Seasonally Adjusted

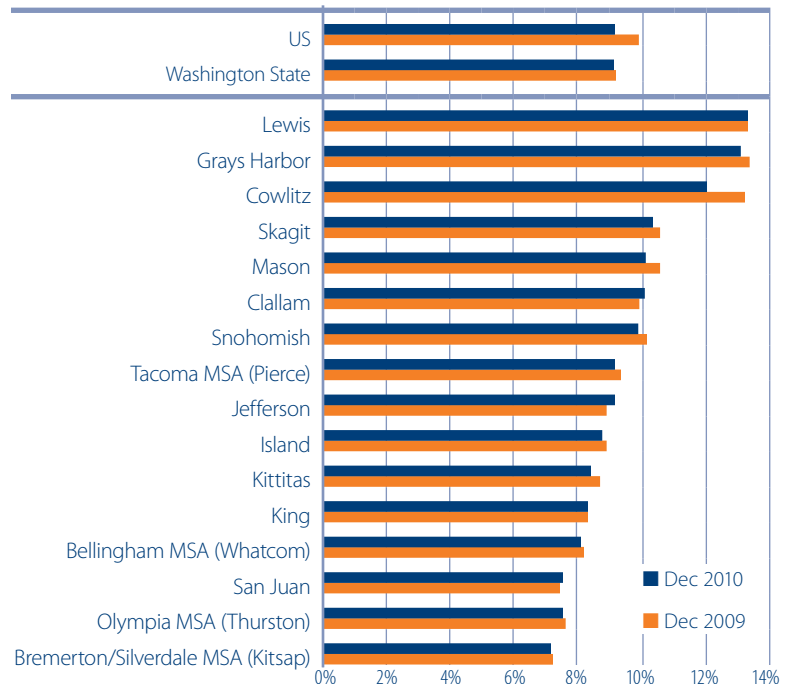
## PERCENT CHANGE IN ANNUAL EMPLOYMENT



## UNEMPLOYMENT RATE COMPARISON

| Metropolitan Area                 | Employment | Unemployment Rate |
|-----------------------------------|------------|-------------------|
| Bellingham MSA (Whatcom)          | 77,800     | 8.1%              |
| Bremerton/Silverdale MSA (Kitsap) | 82,700     | 7.3%              |
| Clallam                           | 21,950     | 10.1%             |
| Cowlitz                           | 36,200     | 12.0%             |
| Grays Harbor                      | 21,270     | 13.1%             |
| Island                            | 15,290     | 8.7%              |
| Jefferson                         | 8,220      | 9.2%              |
| King                              | 1,144,700  | 8.4%              |
| Kittitas                          | 14,830     | 8.5%              |
| Lewis                             | 22,620     | 13.3%             |
| Mason                             | 13,290     | 10.2%             |
| Olympia MSA (Thurston)            | 97,900     | 7.6%              |
| San Juan                          | 4,860      | 7.6%              |
| Skagit                            | 43,900     | 10.3%             |
| Snohomish                         | 243,900    | 9.8%              |
| Tacoma MSA (Pierce)               | 265,800    | 9.2%              |

## UNEMPLOYMENT RATE COMPARISON



## REGIONAL REAL ESTATE

In 2010, our market area saw 42,144 transactions—an increase of two percent over 2009. Growth slowed dramatically in the fourth quarter, but I was pleased to see that we still ended the year above 2009 levels. Year-over-year, over sixty percent of counties saw improving sales velocities, with Jefferson County registering a very impressive nineteen percent increase. Declines were greatest in Whatcom County where, year-over-year, transactions were down by seven percent.

When we look at home price growth in 2010 over 2009, we continue to see more counties in the positive column than the negative one. It is my anticipation that this will continue to show improvement in 2011, especially in areas where foreclosure activity is not a large factor.

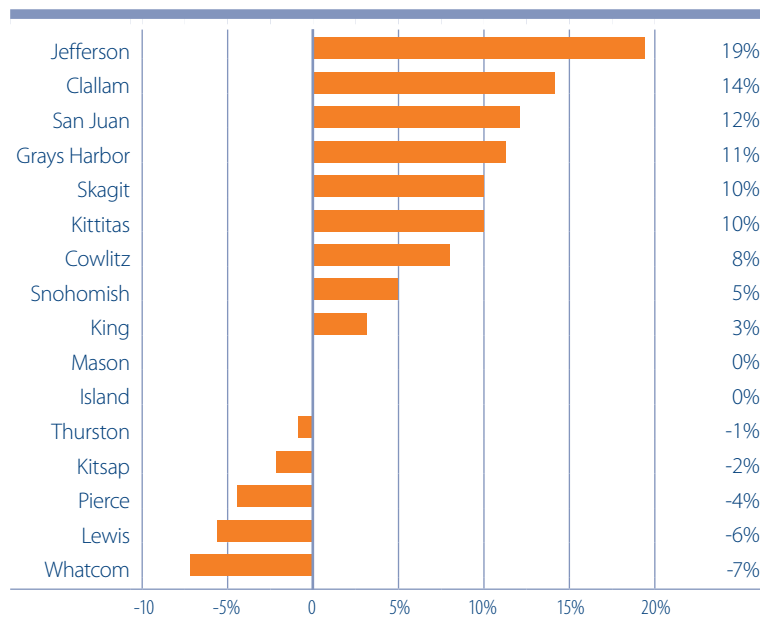
The greatest rate of house price appreciation was found in the very volatile San Juan County, where prices were up by over 64 percent from December 2009. This was followed by Mason (+26.2%), Grays Harbor (+11%), and Whatcom (+10.2%) counties. Prices declined the greatest in Jefferson (-22.9%), followed by Lewis (-20.9%) and Island (-18.1%) counties.

Over time, we note that four of sixteen counties in our region show positive price growth over the third quarter of 2010, and ten are higher than a year ago. Year-over-year, prices across the region have grown by 1.6 percent.

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

| County       | Year-to-Date<br>Dec 2010 | Year-to-Date<br>Dec 2009 |
|--------------|--------------------------|--------------------------|
| King         | 17,619                   | 17,061                   |
| Snohomish    | 6,122                    | 5,823                    |
| Pierce       | 6,899                    | 7,206                    |
| Kitsap       | 2,299                    | 2,347                    |
| Mason        | 531                      | 530                      |
| Skagit       | 983                      | 891                      |
| Grays Harbor | 640                      | 575                      |
| Lewis        | 497                      | 529                      |
| Cowlitz      | 674                      | 624                      |
| Thurston     | 2,088                    | 2,108                    |
| San Juan     | 123                      | 110                      |
| Island       | 780                      | 782                      |
| Kittitas     | 377                      | 344                      |
| Jefferson    | 275                      | 232                      |
| Whatcom      | 1,876                    | 2,022                    |
| Clallam      | 361                      | 316                      |

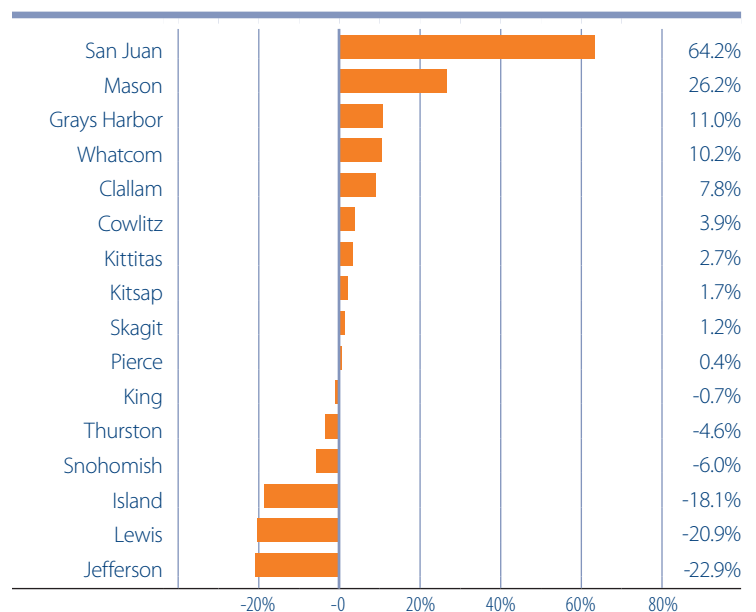
### PERCENT CHANGE IN YTD CLOSED SALES



### SALES PRICE SINGLE-FAMILY & CONDO

| Metropolitan Area | Growth Rate<br>Dec 09 - Dec 10 | Net Growth<br>(in thousands of dollars) |
|-------------------|--------------------------------|-----------------------------------------|
| King              | -0.7%                          | -3.0                                    |
| Snohomish         | -6.0%                          | -17.0                                   |
| Pierce            | 0.4%                           | 1.0                                     |
| Kitsap            | 1.7%                           | 5.0                                     |
| Mason             | 26.2%                          | 43.0                                    |
| Skagit            | 1.2%                           | 3.0                                     |
| Grays Harbor      | 11.0%                          | 16.0                                    |
| Lewis             | -20.9%                         | -36.0                                   |
| Cowlitz           | 3.9%                           | 6.0                                     |
| Thurston          | -4.6%                          | -11.0                                   |
| San Juan          | 64.2%                          | 247.0                                   |
| Island            | -18.1%                         | -53.0                                   |
| Kittitas          | 2.7%                           | 7.0                                     |
| Jefferson         | -22.9%                         | -82.0                                   |
| Whatcom           | 10.2%                          | 27.0                                    |
| Clallam           | 7.8%                           | 16.0                                    |

### HOME PRICE GROWTH RATE



Average \$'s

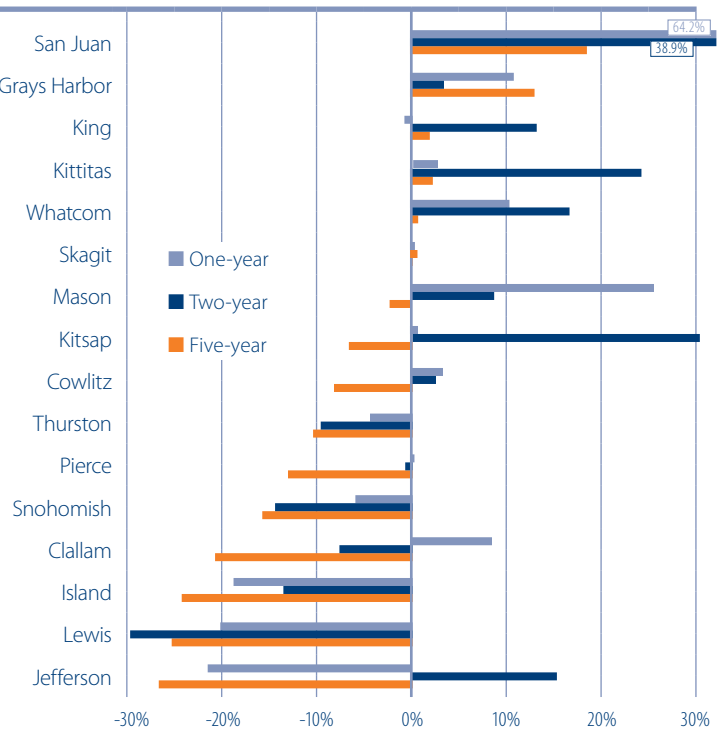
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**RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)**

| Metropolitan Area | Median Price | Home Price Escalation |         |         |         |
|-------------------|--------------|-----------------------|---------|---------|---------|
|                   |              | Quarter               | 1 Year* | 2 Year* | 5 Year* |
| King              | \$421,000    | -1.9%                 | -0.7%   | 13.6%   | 3.7%    |
| Snohomish         | \$264,000    | -6.0%                 | -6.0%   | -14.0%  | -15.4%  |
| Pierce            | \$231,000    | -4.9%                 | 0.4%    | -1.7%   | -13.8%  |
| Kitsap            | \$291,000    | -0.3%                 | 1.7%    | 31.4%   | -6.4%   |
| Mason             | \$207,000    | 0.0%                  | 26.2%   | 8.2%    | -3.7%   |
| Skagit            | \$259,000    | 14.6%                 | 1.2%    | 1.6%    | 0.0%    |
| Grays Harbor      | \$161,000    | 14.2%                 | 11.0%   | 3.9%    | 13.4%   |
| Lewis             | \$136,000    | -34.0%                | -20.9%  | -29.2%  | -25.3%  |
| Cowlitz           | \$161,000    | -6.4%                 | 3.9%    | 3.2%    | -7.5%   |
| Thurston          | \$226,000    | -11.4%                | -4.6%   | -9.6%   | -11.0%  |
| San Juan          | \$632,000    | 12.7%                 | 64.2%   | 38.9%   | 18.4%   |
| Island            | \$240,000    | -20.8%                | -18.1%  | -13.5%  | -24.5%  |
| Kittitas          | \$267,000    | -1.8%                 | 2.7%    | 24.2%   | 2.3%    |
| Jefferson         | \$276,000    | -7.1%                 | -22.9%  | 15.1%   | -26.8%  |
| Whatcom           | \$291,000    | -0.7%                 | 10.2%   | 16.4%   | 2.1%    |
| Clallam           | \$220,000    | -7.6%                 | 7.8%    | -7.9%   | -21.4%  |

\* Year over year from most recent month surveyed

**MEDIAN HOME PRICE ESCALATION RATE**



**CONCLUSIONS**

I suggested in last quarter’s report that the Federal Reserve was certain to inject further money into the economy through bond purchases and that this would assist with interest rates. They duly obliged, however rates have not taken the downturn that many, including myself, had anticipated. Surprisingly enough, this is due to improving economic conditions. It is now my contention that we will not revisit the lows in mortgage rates that were seen in 2010, but neither will we see dramatic increases in rates this year. That said, I now believe that rates will slowly increase through 2011, and that may give additional impetus for buyers of real estate to proceed with purchases.

The region still appears to be in somewhat of a state of flux relative to its employment and real estate situations. Employment and home prices are improving in some key geographies; however, all areas are not created equal and, as such, a recovery will not be equal either. I anticipate that businesses will start—or continue—hiring in 2011, and that this will positively impact the residential real estate markets in our region. From a home value perspective, we are being held back by distressed transactions that continue to negatively impact values. As these work through the system, we should see some further improvements this year, and I anticipate that overall numbers of sales will also continue to improve.

**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](mailto:ge.admin@gardnereconomics.com) for more information.

