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WINDERMERE REAL ESTATE

THE
GARDNER
REPORT

FIRST QUARTER 2011, VOLUME XIII

Windermere Real Estate is proud to partner with Gardner Economics to provide this analysis and commentary on the Western Washington real estate market. This report is designed to support Windermere owners and brokers as they educate buyers and sellers about the realities of the housing market. Numbers alone do not always give an accurate picture of local economic conditions; therefore our goal is to provide insight into what the statistics mean and how they impact the Western Washington housing economy. We hope that you will use this information judiciously as you counsel your clients and provide them with everything they need to make an informed real estate decision.



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MACRO & REGIONAL ECONOMICS

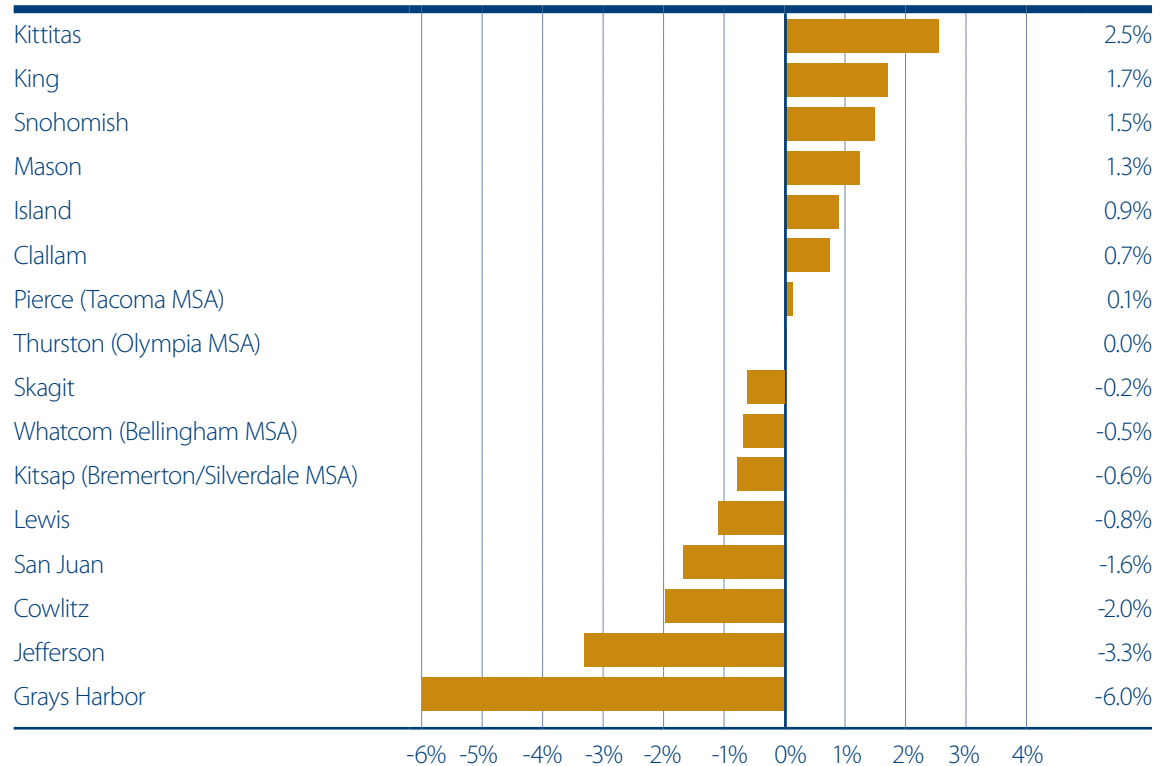
In simple terms, there are two ways in which we can look at the first-quarter 2011 employment situation across our state: the good and the not so good! As I always like to start off my commentary on a positive note, I will open with the good.

March's year-over-year unemployment rates across our region continue to show marked improvement with all but one of the 16 counties that make up this report showing positive gains. The greatest improvements were found in Cowlitz County where the unemployment rate dropped from 14.2 to 12.7 percent. Mason County also saw a large improvement with their rate dropping by one percentage point. The only area that is still suffering from an increasing rate is Jefferson County, but it was marginal at 0.1 percent.

Even with these improving conditions, it may be surprising, and a little disappointing, to see that job growth was only found in seven of our counties. Not surprisingly, the greatest gains were found in King County where employment growth was measured at 19,000 new positions. The greatest losses were found in Grays Harbor County where there were net losses of 1,320 jobs.

How can these two sets of figures be so different? Well, it is a function of individuals stopping their search for work. When you stop looking for work the government stops counting you! With this in mind, I predict that as the employment situation continues to improve, we may actually see the unemployment rate rise. Look for this to start occurring later this year.

PERCENT CHANGE IN ANNUAL EMPLOYMENT



NON AGRICULTURE EMPLOYMENT SITUATION: MARCH 2010–MARCH 2011

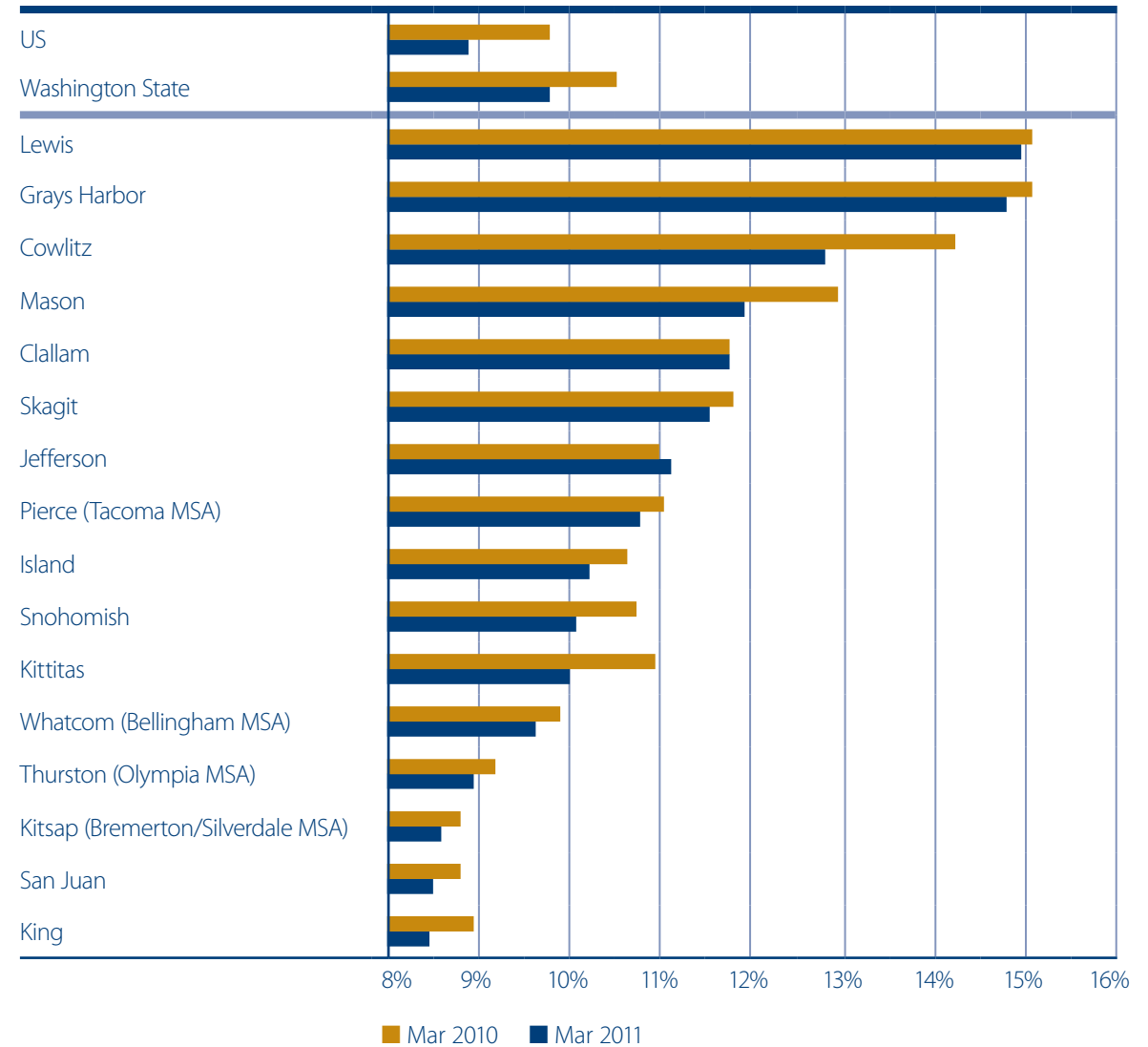
County	Growth	Growth Rate	County	Growth	Growth Rate
Clallam	150	0.7%	Lewis	-170	-0.8%
Cowlitz	-700	-2.0%	Mason	170	1.3%
Grays Harbor	-1,320	-6.0%	Pierce (Tacoma MSA)	200	0.1%
Island	130	0.9%	San Juan	-80	-1.6%
Jefferson	-270	-3.3%	Skagit	-100	-0.2%
King	19,000	1.7%	Snohomish	3,600	1.5%
Kitsap (Bremerton/Silverdale MSA)	-500	-0.6%	Thurston (Olympia MSA)	0	0.0%
Kittitas	360	2.5%	Whatcom (Bellingham MSA)	-400	-0.5%

Not Seasonally Adjusted

UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Clallam	22,040	11.6%
Cowlitz	34,600	12.7%
Grays Harbor	20,530	14.7%
Island	15,210	10.2%
Jefferson	7,920	11.1%
King	1,135,400	8.4%
Kitsap (Bremerton/Silverdale MSA)	81,400	8.6%
Kittitas	14,790	10.0%
Lewis	22,240	14.9%
Mason	12,970	11.9%
Pierce (Tacoma MSA)	262,700	10.7%
San Juan	4,840	8.5%
Skagit	43,300	11.5%
Snohomish	243,200	10.1%
Thurston (Olympia MSA)	97,700	8.9%
Whatcom (Bellingham MSA)	77,300	9.6%

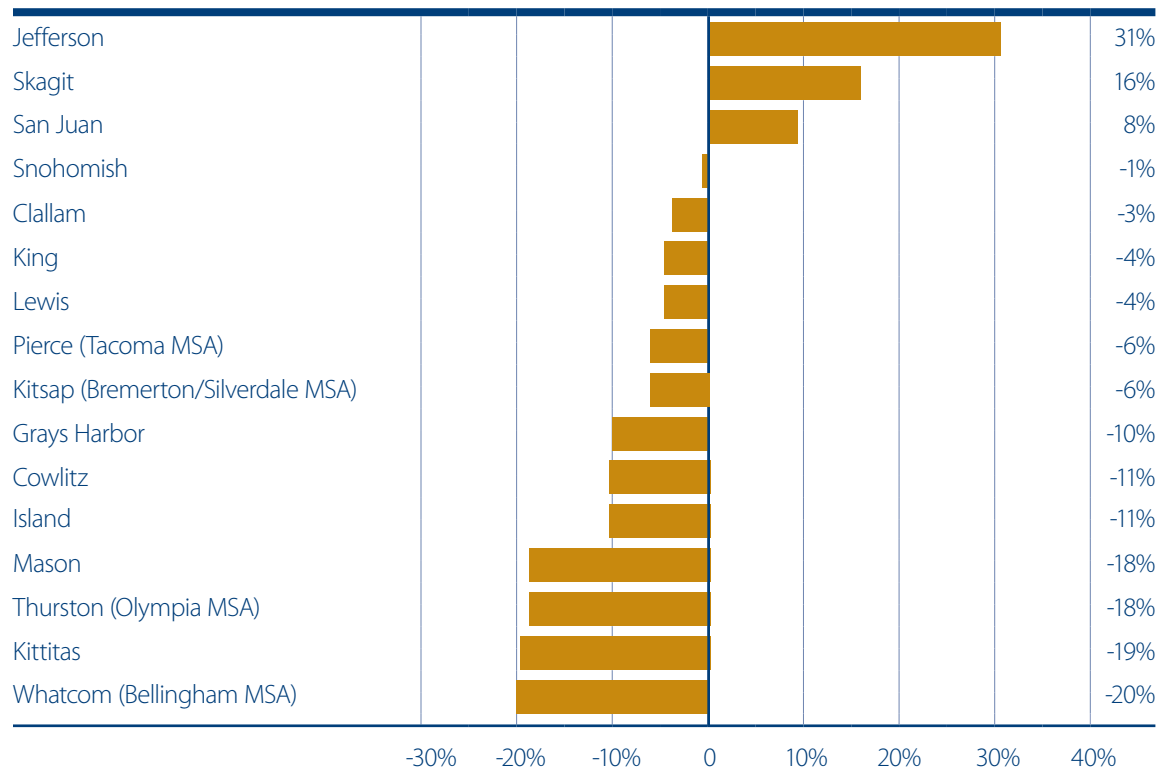
UNEMPLOYMENT RATE COMPARISON



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I was very interested to see a comparison between sales figures for the first-quarter of this year versus the incentive-fuelled first-quarter of 2010. Needless to say, this cannot be an “apples-to-apples” comparison. As I expected, overall transactions for the first-quarter of 2011 were down relative to Q1 2010, but I was happy to see that the rate of contraction was not as much as I had expected. Overall, sales of existing single-family and multifamily units were down by 5.5 percent over the same quarter of 2010. We actually saw an increase in activity in three of the counties analyzed.

PERCENT CHANGE IN YTD CLOSED SALES



CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY HOME & CONDO

County	YTD Mar 10	YTD Mar 11	County	YTD Mar 10	YTD Mar 11
Clallam	65	63	Lewis	120	115
Cowlitz	161	143	Mason	122	100
Grays Harbor	142	128	Pierce (Tacoma MSA)	1,524	1,434
Island	160	142	San Juan	24	26
Jefferson	45	59	Skagit	180	208
King	3,794	3,641	Snohomish	1,348	1,335
Kitsap (Bremerton/Silverdale MSA)	482	453	Thurston (Olympia MSA)	450	368
Kittitas	85	69	Whatcom (Bellingham MSA)	412	329

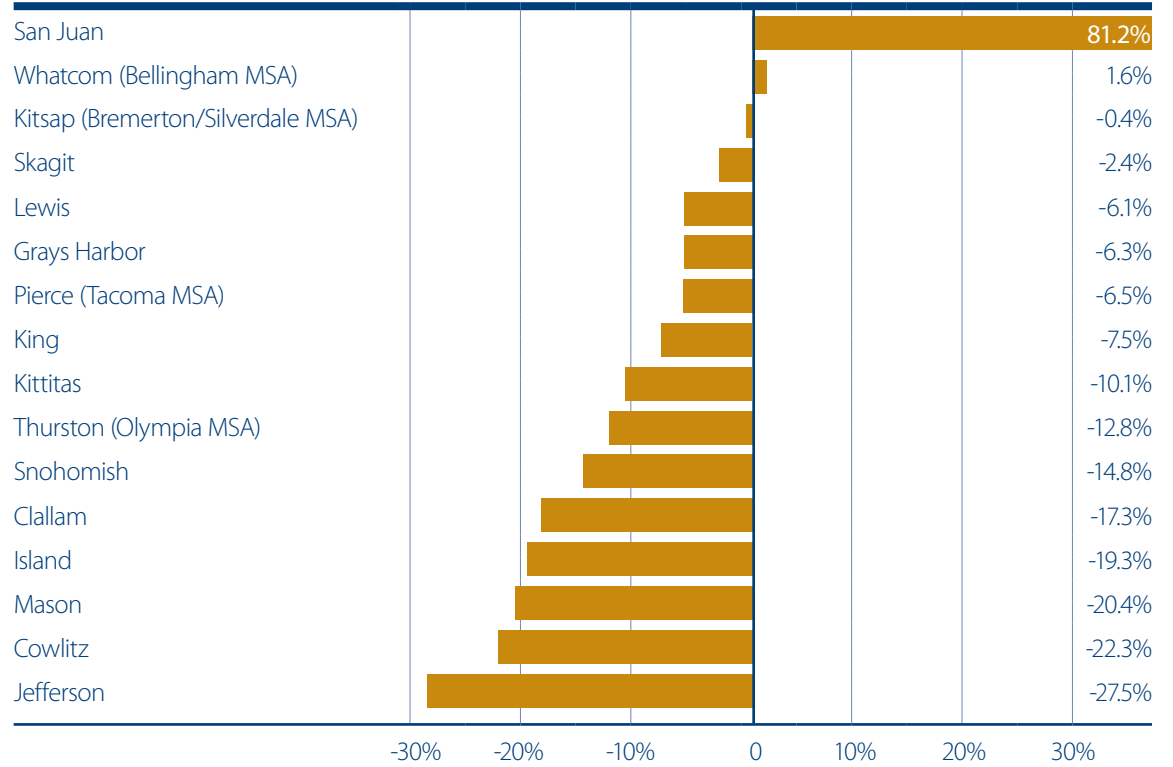
REGIONAL REAL ESTATE

When we compare home price growth in the first-quarter of 2011 with the prior year, we move further into negative territory, but this too is a function of the tax-incentivized market that occurred last spring.

There was home price appreciation in the very volatile San Juan County, where prices were up by over 81 percent from March of 2010. We also eked out growth in Whatcom County, but these were the only two counties that saw improvements. In aggregate, prices were down in our region by an average of 6.7 percent or 11.6 percent if we exclude San Juan County. Prices saw the greatest declines in Jefferson (-27.5%), followed by Cowlitz (-22.3%) and Mason (-20.4%) Counties.

It is difficult to make any qualifiable comments on prices as the market was incentivized last year. There is no question, however, that the market is lacking direction and we are being weighed down by distressed home sales which are negatively impacting prices and are likely to do so for some time to come.

HOME PRICE GROWTH RATE



SALES PRICE SINGLE-FAMILY & CONDO: MARCH 2010–MARCH 2011

County	Growth Rate	Net Growth (\$000's)	County	Growth Rate	Net Growth (\$000's)
Clallam	-17.3%	-45.0	Lewis	-6.1%	-9.0
Cowlitz	-22.3%	-39.0	Mason	-20.4%	-43.0
Grays Harbor	-6.3%	-9.0	Pierce (Tacoma MSA)	-6.5%	-15.0
Island	-19.3%	-58.0	San Juan	81.2%	168.0
Jefferson	-27.5%	-85.0	Skagit	-2.4%	-6.0
King	-7.5%	-31.0	Snohomish	-14.8%	-43.0
Kitsap (Bremerton/Silverdale MSA)	-0.4%	-1.0	Thurston (Olympia MSA)	-12.8%	-30.0
Kittitas	-10.1	-23.0	Whatcom (Bellingham MSA)	1.6%	4.0

Average \$'s

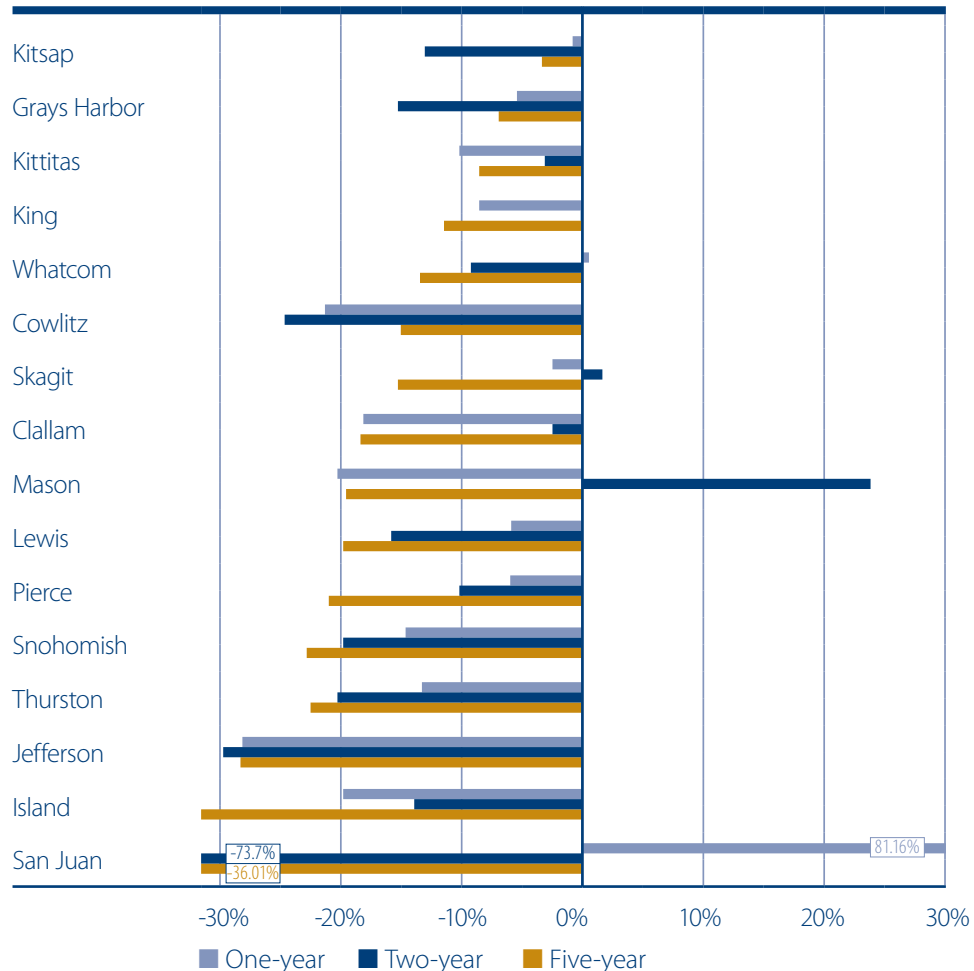
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Clallam	\$215,000	-2.3%	-17.3%	-2.3%	-17.6%
Cowlitz	\$136,000	-15.5%	-22.3%	-24.4%	-15.0%
Grays Harbor	\$134,000	-16.8%	-6.3%	-15.2%	-6.9%
Island	\$242,000	1.7%	-19.3%	-13.9%	-32.4%
Jefferson	\$224,000	38.3%	-27.5%	-29.1%	-27.7%
King	\$383,000	-9.0%	-7.5%	0.0%	-12.0%
Kitsap	\$274,000	-4.9%	-0.4%	-13.0%	-3.5%
Kittitas	\$205,000	-23.2%	-10.1%	-3.3%	-8.1%
Lewis	\$138,000	0.7%	-6.1%	-16.9%	-19.8%
Mason	\$168,000	-20.8%	-20.4%	23.5%	-19.6%
Pierce	\$215,000	-6.1%	-6.5%	-10.0%	-21.5%
San Juan	\$375,000	-39.9%	81.2%	-73.7%	-36.0%
Skagit	\$246,000	-4.3%	-2.4%	2.9%	-15.8%
Snohomish	\$247,000	-6.1%	-14.8%	-19.3%	-22.8%
Thurston	\$205,000	-9.7%	-12.8%	-20.8%	-22.9%
Whatcom	\$255,000	-12.1%	1.6%	-8.9%	-13.3%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

Our region is improving economically and I fully anticipate that we will fare better than the rest of the nation as we emerge from the deepest recession since the Great Depression. Job creation will be from the center out (i.e. starting in the Central Puget Sound) and this will be the same pattern when it comes to real estate prices.

It is interesting to look at available inventory levels as I undertake this analysis. On an individual county basis, as well as combined, we have not seen the market increase its inventory levels as is expected in a normalized market. I would suggest that this is a function of sellers waiting to see improved conditions relative to home values before committing to listing their homes for sale.

That said, I am pleased to see pending sales on the rise at quite a nice rate in many counties. It will be interesting to see what effect this has on prices in the second quarter and whether we will see any improvement. If we do, then it is likely that additional listings will come to 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; 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.

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