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WINDERMERE REAL ESTATE

THE
GARDNER
REPORT

THIRD QUARTER 2011, VOLUME XV

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

As I review the data that makes up this report, I am reminded somewhat of the tale of the *Tortoise and the Hare*. As residents, homeowners, and employers/employees, our mentality is that of the hare. We want to speed out of the recession and get to the end, i.e., return to the days of home value and employment growth. However, unfortunately, the economy appears to be acting very tortoise-like with slow, plodding improvements and no great sense of urgency at all.

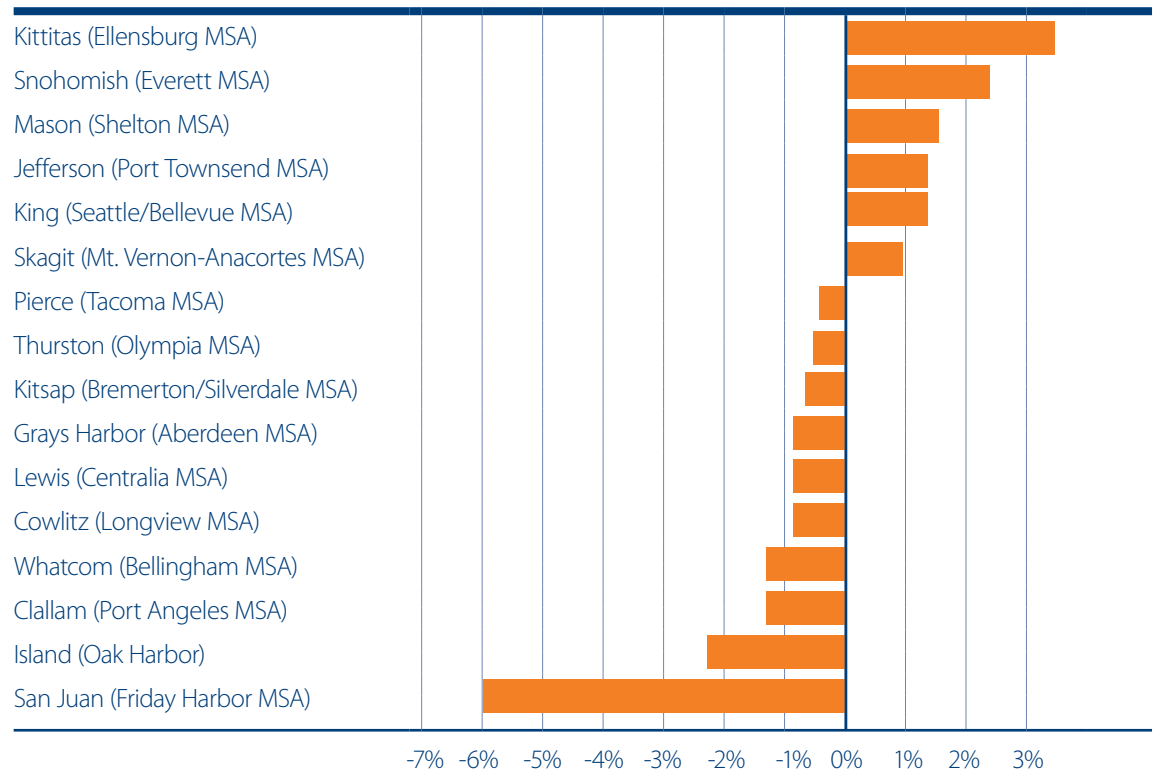
When I turn my attentions to the current employment situation, it's clear to me that the region continues to grow—albeit at a tortoise's pace (with employment levels now just 17,000 higher than they were a year ago)—but our growth rates have slowed in the past quarter. Of course, much of this can be attributed to continued declines in government employment as well as layoffs in the leisure industry that traditionally come at the end of the vacation season.

The growth in our market continues to be divided, but to a lesser degree than we saw in the second quarter data. Six counties experienced a net increase in employment, which exceeded the second quarter when just four counties increased their employment. The greatest percentage growth areas were Kittitas (3.4%), Snohomish (2.4%), Mason (1.5%), and Jefferson and King Counties, which both experienced a 1.3 percent growth rate. Job losses were most profound in San Juan County (-6.0%), followed by Island (-2.2%), and Clallam and Whatcom Counties, which contracted by 1.3 percent respectively.

From an unemployment rate perspective, rates across our region varied with four counties showing improvement, two remaining static, and ten faring worse than a year ago. As I stated in last quarter's report, much of this is a function of more people starting to actively look for work. The greatest improvements were found in Snohomish, King, Kittitas, and Cowlitz Counties. Markets where the unemployment rate grew the most were Grays Harbor, Thurston, Tacoma, and Kitsap Counties.

Overall, I am giving the employment situation a "C" grade, matching last quarter with seasonal fluctuations showing that our overall direction is still not clear. I believe that private sector hiring is key to our recovery, but uncertainty—driven primarily by uncertain fiscal policies—is holding businesses back from increasing their employment base. As and when we see more concerted efforts coming out of Washington, DC, I fully anticipate that the employment picture will change at more than a tortoise's pace!

PERCENT CHANGE IN ANNUAL EMPLOYMENT



NON AGRICULTURE EMPLOYMENT SITUATION: SEPT 2010–SEPT 2011

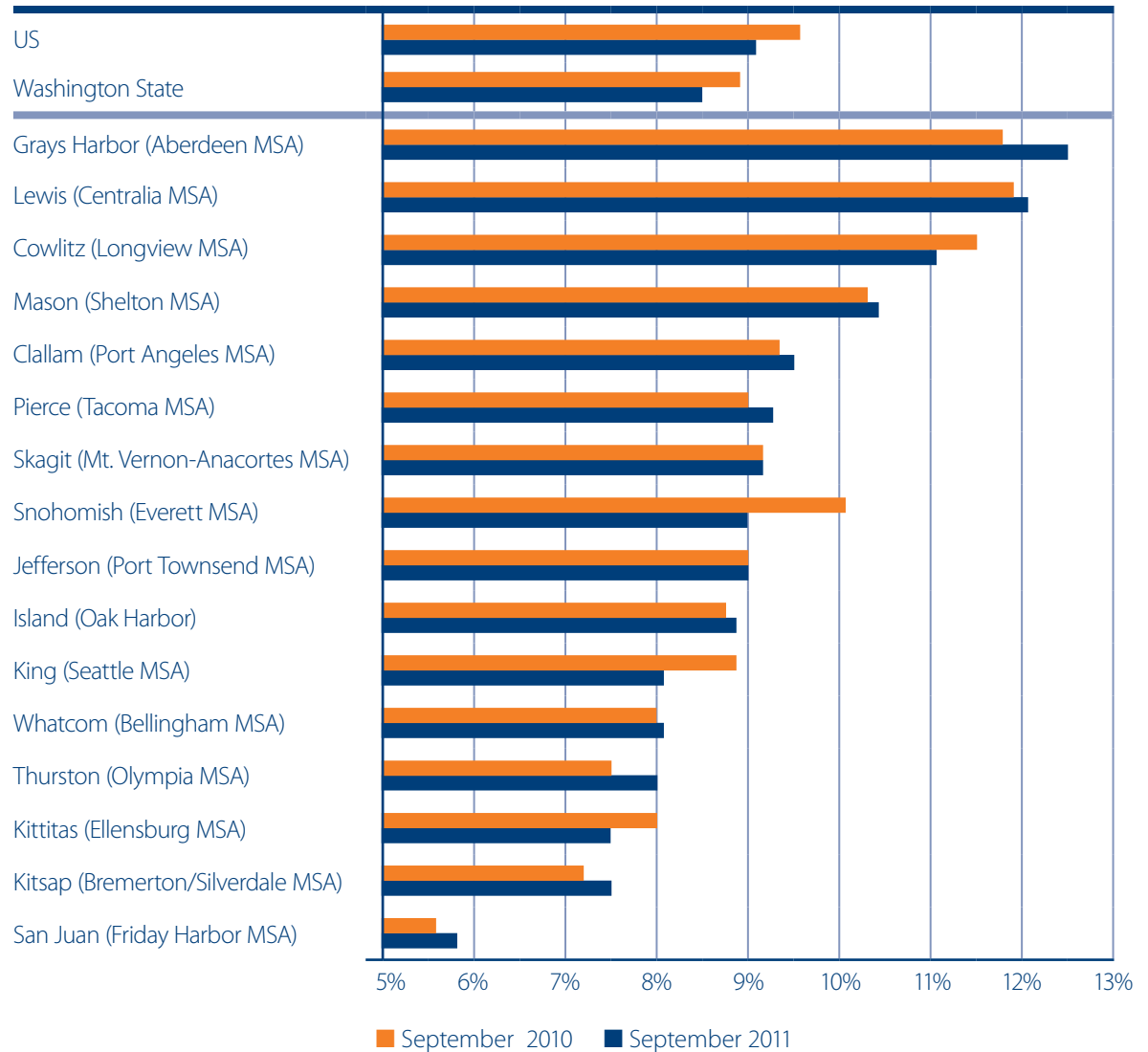
County	Growth	Growth Rate	County	Growth	Growth Rate
Clallam (Port Angeles MSA)	-300	-1.3%	Lewis (Centralia MSA)	-190	-0.8%
Cowlitz (Longview MSA)	-300	-0.8%	Mason (Shelton MSA)	190	1.5%
Grays Harbor (Aberdeen MSA)	-180	-0.8%	Pierce (Tacoma MSA)	-1,000	-0.4%
Island (Oak Harbor)	-340	-2.2%	San Juan (Friday Harbor MSA)	-350	-6.0%
Jefferson (Port Townsend MSA)	110	1.3%	Skagit (Anacortes MSA)	400	0.9%
King (Seattle/Bellevue MSA)	14,900	1.3%	Snohomish (Everett MSA)	5,900	2.4%
Kitsap (Bremerton/Silverdale MSA)	-500	-0.6%	Thurston (Olympia MSA)	-500	-0.5%
Kittitas (Ellensburg MSA)	510	3.4%	Whatcom (Bellingham MSA)	-1,000	-1.3%

Not Seasonally Adjusted

UNEMPLOYMENT RATE COMPARISON

County (Metropolitan Area)	Employment	Unemployment Rate
Clallam (Port Angeles MSA)	22,530	9.5%
Cowlitz (Longview MSA)	35,700	11.1%
Grays Harbor (Aberdeen MSA)	22,070	12.5%
Island (Oak Harbor)	14,870	8.8%
Jefferson (Port Townsend MSA)	8,370	9.0%
King (Seattle MSA)	1,150,200	8.1%
Kitsap (Bremerton/Silverdale MSA)	81,800	7.5%
Kittitas (Ellensburg MSA)	15,580	7.5%
Lewis (Centralia MSA)	22,960	12.1%
Mason (Shelton MSA)	13,280	10.4%
Pierce (Tacoma MSA)	267,000	9.3%
San Juan (Friday Harbor MSA)	5,450	5.8%
Skagit (Mt. Vernon-Anacortes MSA)	44,600	9.2%
Snohomish (Everett MSA)	251,100	9.0%
Thurston (Olympia MSA)	96,700	8.0%
Whatcom (Bellingham MSA)	78,000	8.1%

UNEMPLOYMENT RATE COMPARISON

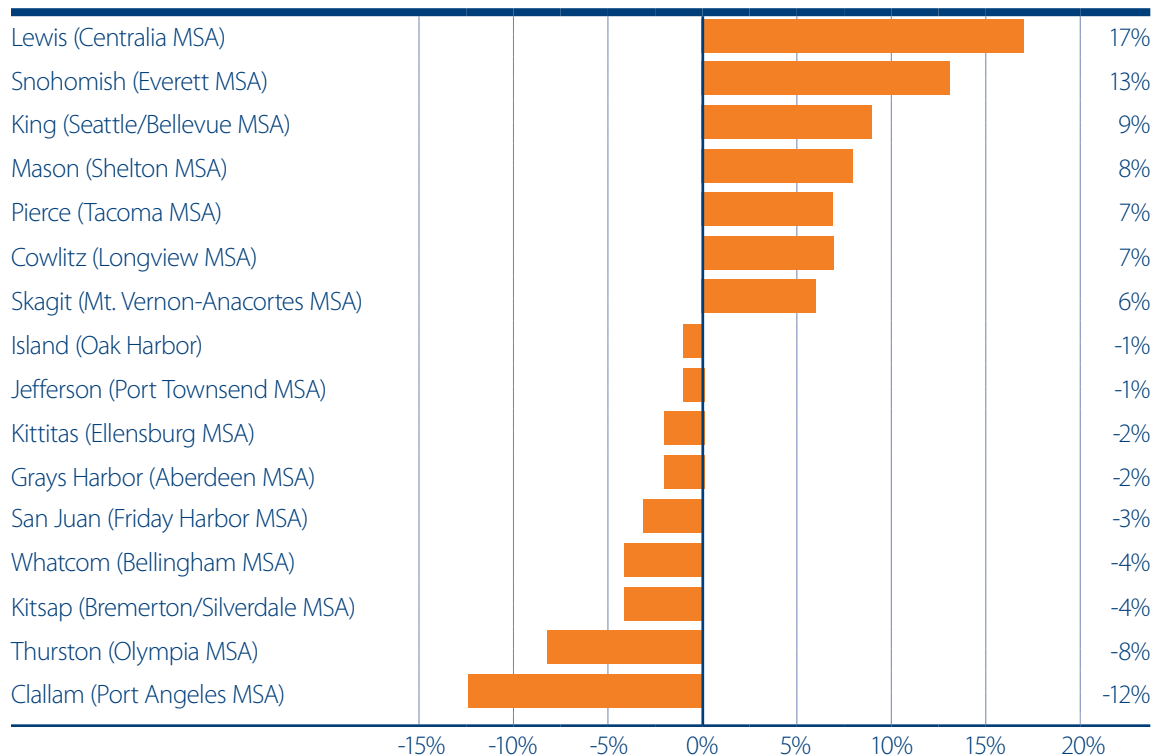


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In aggregate, sales transactions through the third quarter of this year are up 6.5 percent over the same period in 2010. Our comparison to the tax-incentivized market of last spring is dissipating and the numbers are, generally, pleasing. When compared to the year-to-date figures shown in 2010, we note that seven counties saw an increase in transactions and nine did not meet last year's figure. That said, some of the declines were almost infinitesimal. For example, five of the counties surveyed saw single-digit declines in sales transactions and three were under 100 units (in aggregate). On a percentage basis, only highly volatile San Juan County was in a worse position than at the end of the second quarter.

At face value this news seems very positive, but there was a price to be paid for the improvement in transactional velocities. The value of homes in our market declined by 14.6 percent from a year ago; if you exclude San Juan County, the drop was 12.3 percent. Looking at the specific counties that were analyzed, there were just two that exhibited price growth from September of 2010—these are Skagit (11.4%) and Jefferson (4.4%). Counties that saw the greatest price declines included: Kittitas (-32%), San Juan (-30%), Clallam (-23.1%), and Lewis (-22.8%) Counties.

PERCENT CHANGE IN YTD CLOSED SALES



CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY HOME & CONDO

County	YTD Sept 11	YTD Sept 10	County	YTD Sept 11	YTD Sept 10
Clallam (Port Angeles MSA)	235	267	Lewis (Centralia MSA)	428	367
Cowlitz (Longview MSA)	567	530	Mason (Shelton MSA)	450	415
Grays Harbor (Aberdeen MSA)	485	494	Pierce (Tacoma MSA)	5,674	5,292
Island (Oak Harbor)	601	608	San Juan (Friday Harbor MSA)	85	88
Jefferson (Port Townsend MSA)	203	206	Skagit (Anacortes MSA)	784	737
King (Seattle/Bellevue MSA)	14,968	13,709	Snohomish (Everett MSA)	5,375	4,766
Kitsap (Bremerton/Silverdale MSA)	1,681	1,760	Thurston (Olympia MSA)	1,491	1,613
Kittitas (Ellensburg MSA)	278	283	Whatcom (Bellingham MSA)	1,401	1,458

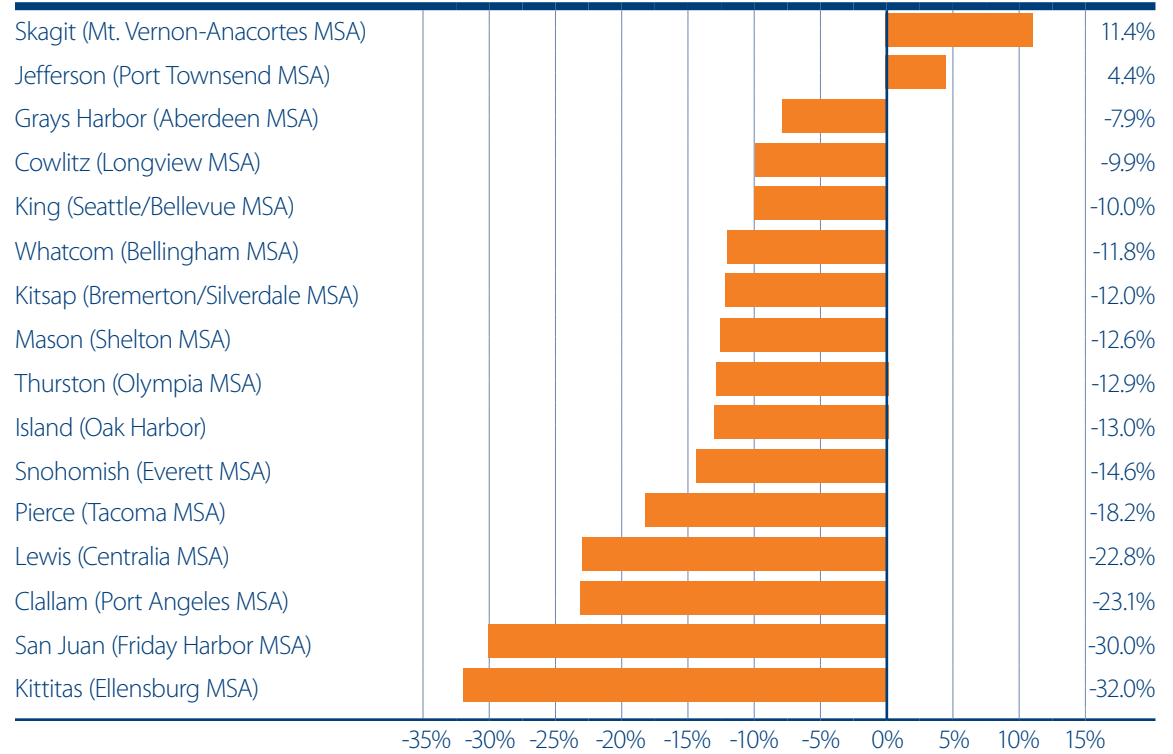
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As it is still a little unfair to look at year-over-year prices due to the tax rebate that was in place last year, I turn my attentions to changes over the past quarter and see a different picture. Although just seven counties experienced positive price growth between the second and third quarters, as compared to the 11 counties that saw positive growth between the first and second quarters of this year, I still deem this to be positive. By comparison, only three counties exhibited price growth in the first three months of this year.

Transactions are up and prices are still, in aggregate, down. The data that I've been reviewing shows that the percentage of distressed transactions is still high and, in as much as this appears to be helping in terms of overall transactions, it is still having a negative effect on values. Going forward, I expect that we will see banks improve on the speed at which they get homes to market and that the percentage of overall distressed transactions (relative to market rate transactions) will start to come down. That said, do not expect any marked change until we get into 2012.

Overall, I give the real estate market a "C-" this quarter.

HOME PRICE GROWTH RATE



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

County	Growth Rate	Net Growth (\$000's)	County	Growth Rate	Net Growth (\$000's)
Clallam (Port Angeles MSA)	-23.1%	-54.0	Lewis (Centralia MSA)	-22.8%	-46.0
Cowlitz (Longview MSA)	-9.9%	-17.0	Mason (Shelton MSA)	-12.6%	-26.0
Grays Harbor (Aberdeen MSA)	-7.9%	-11.0	Pierce (Tacoma MSA)	-18.2%	-44.0
Island (Oak Harbor)	-13.0%	-40.0	San Juan (Friday Harbor MSA)	-30.0%	-170.0
Jefferson (Port Townsend MSA)	4.4%	13.0	Skagit (Anacortes MSA)	11.4%	26.0
King (Seattle/Bellevue MSA)	-10.0%	-43.0	Snohomish (Everett MSA)	-14.6%	-41.0
Kitsap (Bremerton/Silverdale MSA)	-12.0%	-35.0	Thurston (Olympia MSA)	-12.9%	-32.0
Kittitas (Ellensburg MSA)	-32.0%	-87.0	Whatcom (Bellingham MSA)	-11.8%	-34.0

Average \$'s

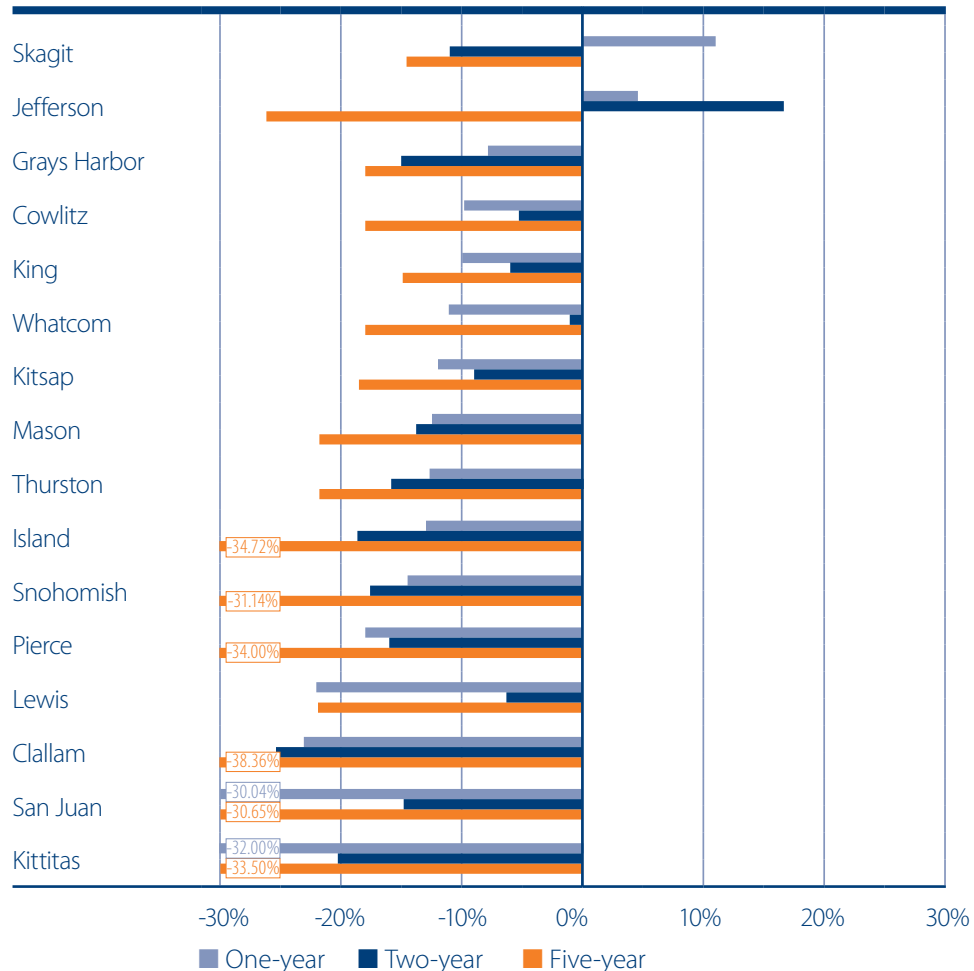
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Clallam	\$180,000	-17.1%	-23.1%	-25.3%	-38.4%
Cowlitz	\$154,000	5.5%	-9.9%	-5.5%	-18.5%
Grays Harbor	\$129,000	4.9%	-7.9%	-15.1%	-18.9%
Island	\$267,000	4.3%	-13.0%	-18.8%	-34.7%
Jefferson	\$310,000	26.0%	4.4%	17.0%	-26.4%
King	\$385,000	-6.3%	-10.0%	-5.9%	-14.6%
Kitsap	\$256,000	-7.2%	-12.0%	-8.9%	-18.5%
Kittitas	\$185,000	-17.4%	-32.0%	-21.3%	-33.5%
Lewis	\$156,000	4.7%	-22.8%	-6.0%	-22.0%
Mason	\$181,000	2.8%	-12.6%	-13.8%	-22.0%
Pierce	\$198,000	-3.4%	-18.2%	-16.1%	-34.0%
San Juan	\$396,000	-21.4%	-30.0%	-14.8%	-30.6%
Skagit	\$254,000	9.0%	11.4%	-11.2%	-14.8%
Snohomish	\$239,000	-1.6%	-14.6%	-17.6%	-31.1%
Thurston	\$217,000	-1.4%	-12.9%	-15.9%	-21.9%
Whatcom	\$255,000	-10.8%	-11.8%	-0.8%	-18.0%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

As a society, we tend to be rather impatient—much like the aforementioned hare. This has been a deep and prolonged recession, and we clearly have some way to go before we emerge on the other end. There remain several hurdles to overcome before our path starts to improve in any rapid manner. Issues in Europe remain and this is having a greater effect on the U.S. than I (and most others) anticipated.

We continue to see modest employment growth in Washington State, but improvements are certainly not equal across the counties. Continued contraction in the government sector and construction are acting as anchors by restraining any significant improvement. In as much as I still contend that Washington State does, and will continue to, fare better than the nation as a whole, uncertainty appears to have permeated all businesses. The Federal Government now appears to be understanding the importance that real estate has in our economic growth. There are numerous proposals being proposed in Congress and the Senate relative to stabilizing our housing market. Although they are not a panacea, I am glad to see that they are starting to understand how important it is.

The housing market continues to demonstrate modest signs of stability, but financing and appraisals are still acting as impediments. Inventory levels saw a modest increase this summer, but are starting to exhibit their traditional seasonal decline—and are still considerably down from historic averages. Pending sales remain well above figures seen a year ago and closed transactions are also trending higher.

What we want is not necessarily what we get, but we must have patience. As the tale suggests, the patient tortoise wins in the end, so my money is firmly on him.

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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