

PREPARED EXCLUSIVELY FOR
WINDERMERE REAL ESTATE

THE
GARDNER
REPORT

FOURTH QUARTER 2011, VOLUME XVI

Windermere Real Estate is proud to partner with Gardner Economics on this analysis of the Western Washington real estate market. This report is designed to offer insight into 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 an explanation of what the statistics mean and how they impact the Western Washington housing economy. We hope that this information may assist you with making an informed real estate decision. For further information about the real estate market in your area, please contact your Windermere agent.



windermere.com

MACRO & REGIONAL ECONOMICS

As I look back on 2011, I do so with mixed emotions. On the positive side, Washington State's job market made significant inroads into the job losses that were seen during the recession and, although the unemployment rate remains elevated, it is heading in the right direction.

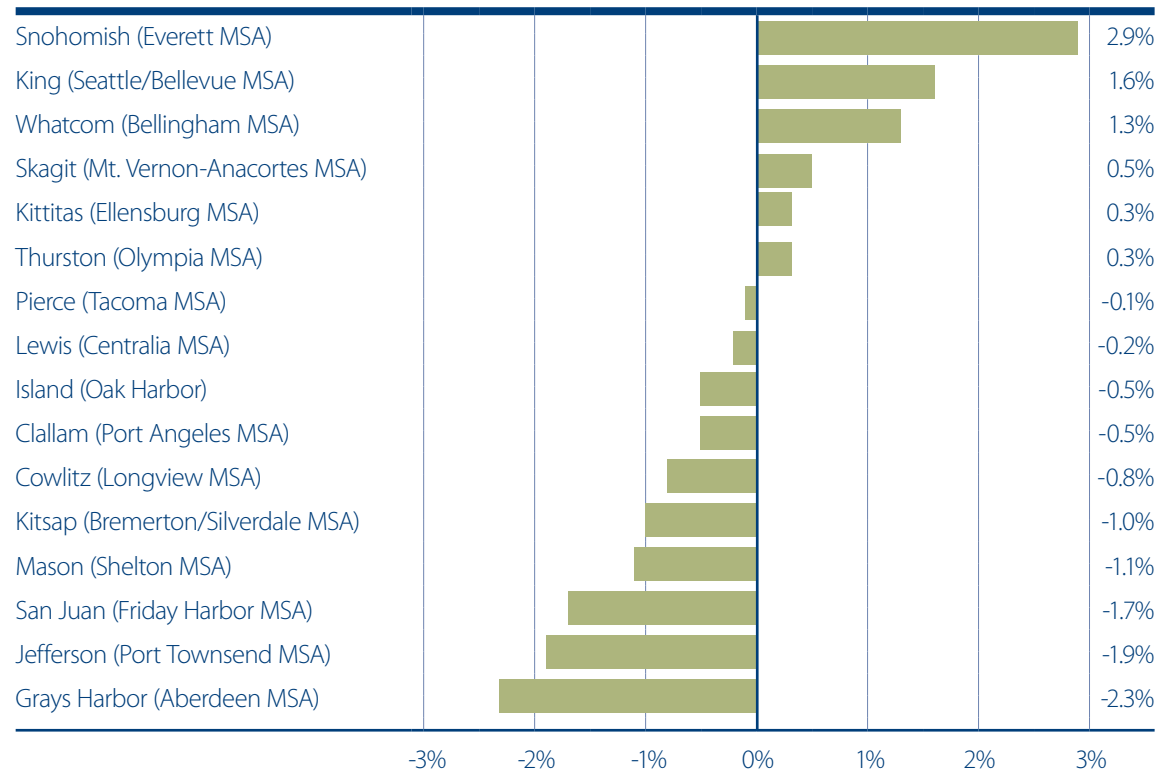
In 2011 we saw some solid job gains with the region adding 24,350 positions, representing a 1.1 percent growth rate. As the charts to the right demonstrate, the increase was seen in six counties with contraction in the other ten. That said, when I look at changes from the third quarter, even those markets that lost jobs are contracting at a slower rate, which is encouraging. Layoffs in the government sector are still acting as an anchor to growth and I do not expect this to change in 2012—even with the private sector doing its best to pick up the slack.

Six counties experienced a net increase in employment which matched that seen in the third quarter. There were few surprises here, with the major employment centers seeing the greatest increase in growth. Snohomish (2.9%), King (1.6%), and Whatcom (1.3%) Counties led the way in year-over-year growth. Job losses were most profound in Grays Harbor County (-2.3%), followed by Jefferson County (-1.9%), San Juan County (-1.7%), Mason County (-1.1%) and Kitsap County (-1.0%).

From an unemployment rate perspective, there was modest improvement over the past quarter (and past year) with five counties showing improvement, two remaining static, and nine faring worse than a year ago. Not surprisingly, the greatest improvements were found in the areas of highest job concentrations with Snohomish and King Counties leading the way. Markets where the unemployment rate grew the most were Grays Harbor, Mason, Kitsap, Jefferson and Clallam Counties.

Considering that in 2010 our market created just 1,550 jobs and in 2011 this increased to 24,350, I am going to give the current employment situation a "C+" grade, up a notch from the last quarter. My expectations for 2012 remain positive, but the headwinds that are being generated both in Washington, D.C. and Europe may affect the speed of our recovery.

PERCENT CHANGE IN ANNUAL EMPLOYMENT



NON AGRICULTURE EMPLOYMENT SITUATION: DEC 2010–DEC 2011

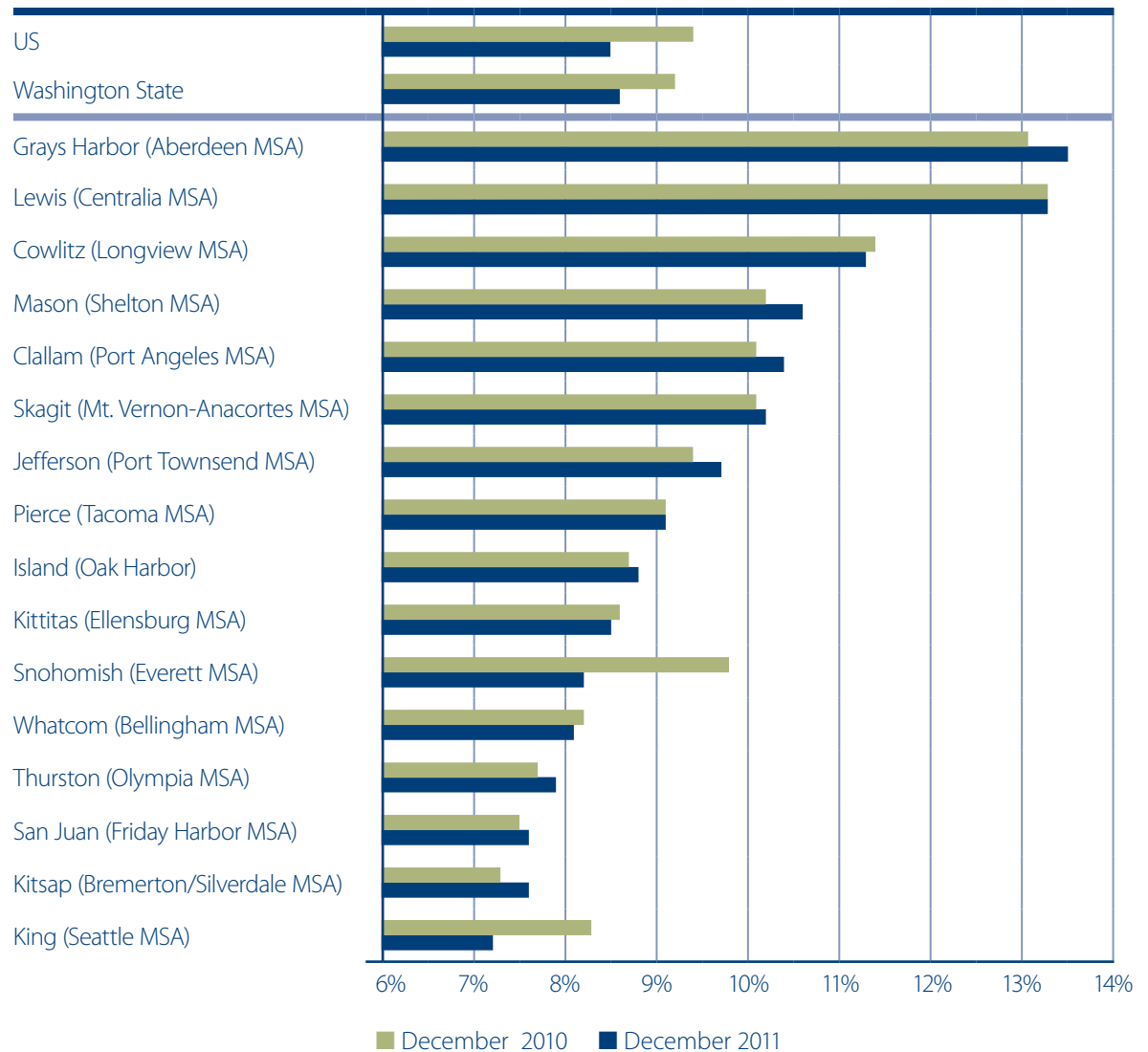
County	Growth	Growth Rate	County	Growth	Growth Rate
Clallam (Port Angeles MSA)	-120	-0.5%	Lewis (Centralia MSA)	-40	-0.2%
Cowlitz (Longview MSA)	-300	-0.8%	Mason (Shelton MSA)	-140	-1.1%
Grays Harbor (Aberdeen MSA)	-490	-2.3%	Pierce (Tacoma MSA)	-300	-0.1%
Island (Oak Harbor)	-80	-0.5%	San Juan (Friday Harbor MSA)	-80	-1.7%
Jefferson (Port Townsend MSA)	-150	-1.9%	Skagit (Anacortes MSA)	200	0.5%
King (Seattle/Bellevue MSA)	18,200	1.6%	Snohomish (Everett MSA)	7,100	2.9%
Kitsap (Bremerton/Silverdale MSA)	-800	-1.0%	Thurston (Olympia MSA)	300	0.3%
Kittitas (Ellensburg MSA)	50	0.3%	Whatcom (Bellingham MSA)	1,000	1.3%

Not Seasonally Adjusted

UNEMPLOYMENT RATE COMPARISON

County (Metropolitan Area)	Employment	Unemployment Rate
Clallam (Port Angeles MSA)	21,920	10.4%
Cowlitz (Longview MSA)	35,400	11.3%
Grays Harbor (Aberdeen MSA)	21,260	13.5%
Island (Oak Harbor)	14,960	8.8%
Jefferson (Port Townsend MSA)	7,950	9.7%
King (Seattle MSA)	1,167,600	7.2%
Kitsap (Bremerton/Silverdale MSA)	82,300	7.6%
Kittitas (Ellensburg MSA)	14,860	8.5%
Lewis (Centralia MSA)	22,480	13.3%
Mason (Shelton MSA)	12,980	10.6%
Pierce (Tacoma MSA)	267,100	9.1%
San Juan (Friday Harbor MSA)	4,700	7.6%
Skagit (Mt. Vernon-Anacortes MSA)	43,700	10.2%
Snohomish (Everett MSA)	254,800	8.2%
Thurston (Olympia MSA)	98,900	7.9%
Whatcom (Bellingham MSA)	80,700	8.1%

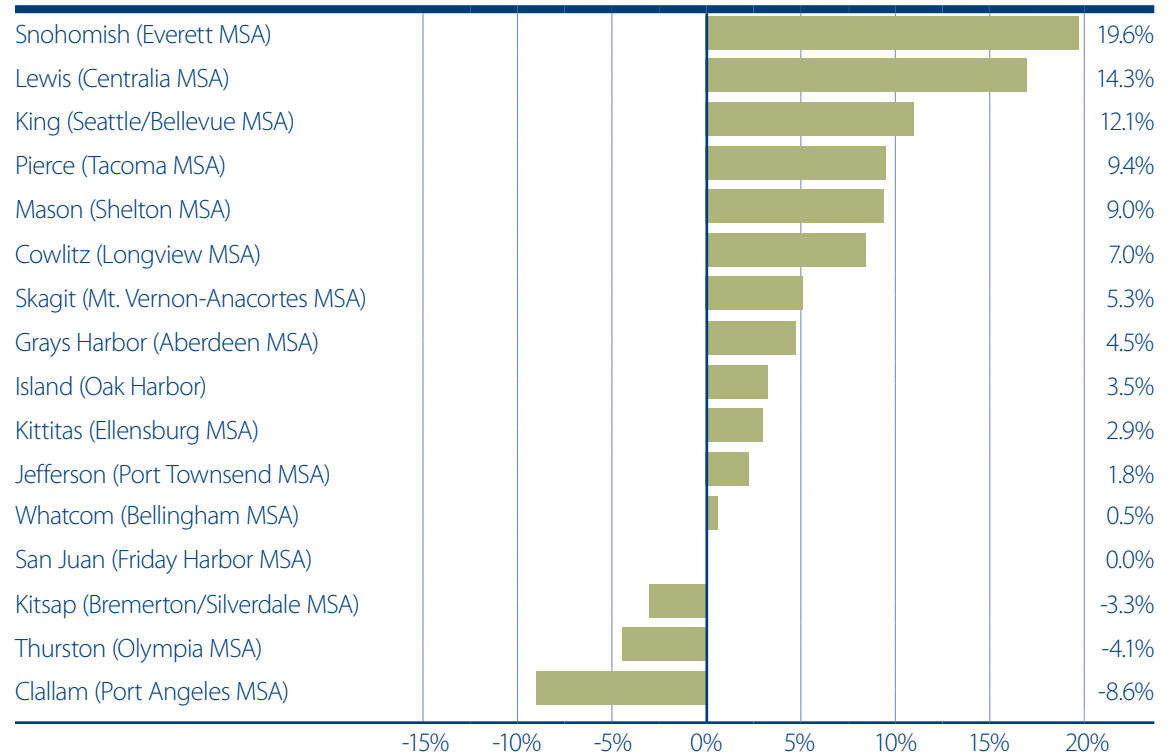
UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Sales transactions in 2011 demonstrated remarkable growth of 9.7 percent over 2010. When compared to 2010, we note that all but four counties saw an increase in transactions with one essentially showing no change and three showing less sales in 2011 than the prior year. The largest increases in overall sales were seen in Snohomish (+20%), Lewis (+14%), and King Counties (+12%). Declines were seen in Clallam (-9%), Thurston (-4%), and Kitsap Counties (-3.3%).

PERCENT CHANGE IN YTD CLOSED SALES



CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY HOME & CONDO

County	YTD Dec 11	YTD Dec 10	County	YTD Dec 11	YTD Dec 10
Clallam (Port Angeles MSA)	330	361	Lewis (Centralia MSA)	569	498
Cowlitz (Longview MSA)	721	674	Mason (Shelton MSA)	580	532
Grays Harbor (Aberdeen MSA)	669	640	Pierce (Tacoma MSA)	7,595	6,941
Island (Oak Harbor)	808	781	San Juan (Friday Harbor MSA)	124	124
Jefferson (Port Townsend MSA)	283	278	Skagit (Anacortes MSA)	1,038	986
King (Seattle/Bellevue MSA)	19,865	17,720	Snohomish (Everett MSA)	7,383	6,172
Kitsap (Bremerton/Silverdale MSA)	2,230	2,307	Thurston (Olympia MSA)	2,010	2,096
Kittitas (Ellensburg MSA)	388	377	Whatcom (Bellingham MSA)	1,888	1,879

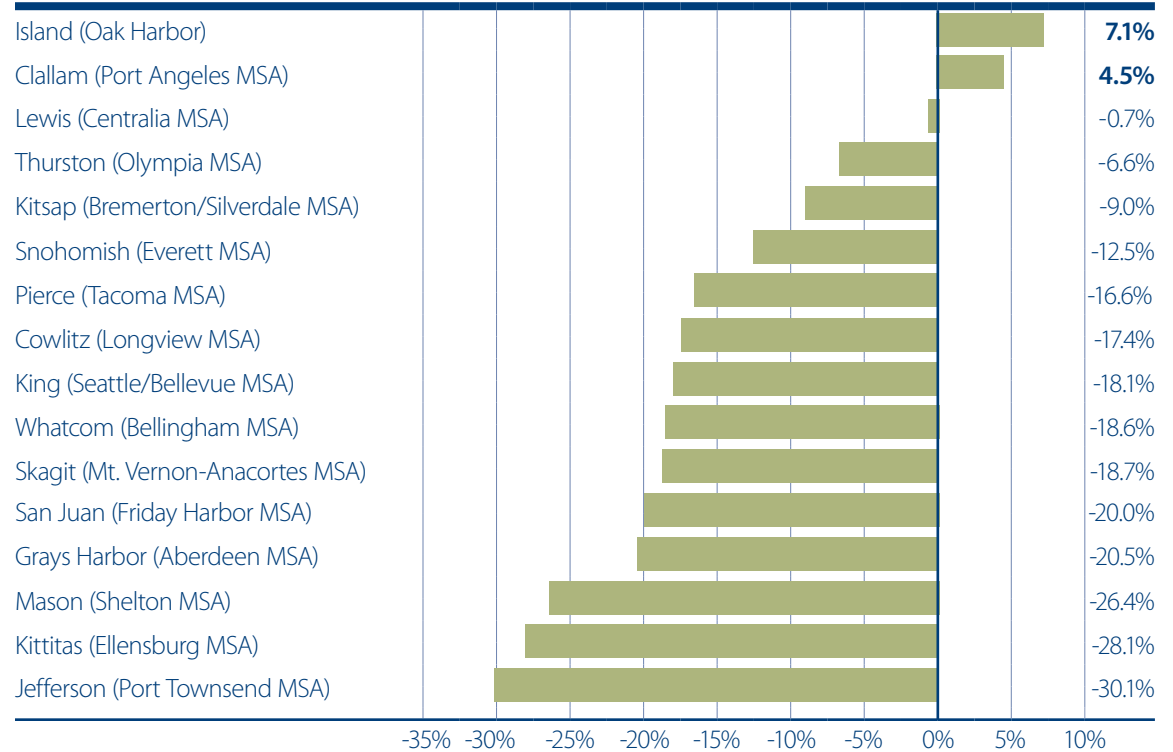
REGIONAL REAL ESTATE

As has been the case for all of 2011, an increase in sales does not mean an increase in prices. The value of transacted units in our market declined by 15.5 percent from a year ago, excluding the volatile San Juan County which saw a drop of 14.8 percent. Looking at the specific counties within our survey, there were two that exhibited price growth from December of 2010, these being Island (+7.1%) and Clallam (+4.5%). Counties that saw the greatest price declines included: Jefferson (-30.1%), Kittitas (-28%), Mason (-26.4%), Grays Harbor (-20.5%), and San Juan (-20%).

There are, I believe, two reasons why we have not yet seen the price stability that we are all looking for. The first of these is that the sale of distressed homes continues to make up a very large percentage of all transactions and these homes sell for substantially lower than market price. In King County, for example, distressed transactions made up 40 percent of all sales in 2011. Additionally, with such low levels of supply, we have seen a pronounced change in the make-up of sales with a disproportionate percentage of homes selling in very affordable price ranges. Both of these factors are having negative effects on home prices.

I am keeping the housing market at a "C-" grade this quarter and am unlikely to change this until we start to see more housing choices become available and the percentage of foreclosures start to decline.

HOME PRICE GROWTH RATE



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

County	Growth Rate	Net Growth (\$000's)	County	Growth Rate	Net Growth (\$000's)
Clallam (Port Angeles MSA)	4.5%	10.0	Lewis (Centralia MSA)	-0.7%	-1.0
Cowlitz (Longview MSA)	-17.4%	-28.0	Mason (Shelton MSA)	-26.4%	-56.0
Grays Harbor (Aberdeen MSA)	-20.5%	-33.0	Pierce (Tacoma MSA)	-16.6%	-38.0
Island (Oak Harbor)	7.1%	17.0	San Juan (Friday Harbor MSA)	-20.0%	-125.0
Jefferson (Port Townsend MSA)	-30.1%	-83.0	Skagit (Anacortes MSA)	-18.7%	-48.0
King (Seattle/Bellevue MSA)	-18.1%	-76.0	Snohomish (Everett MSA)	-12.5%	-33.0
Kitsap (Bremerton/Silverdale MSA)	-9.0%	-26.0	Thurston (Olympia MSA)	-6.6%	-15.0
Kittitas (Ellensburg MSA)	-28.1%	-75.0	Whatcom (Bellingham MSA)	-18.6%	-54.0

Average \$'s

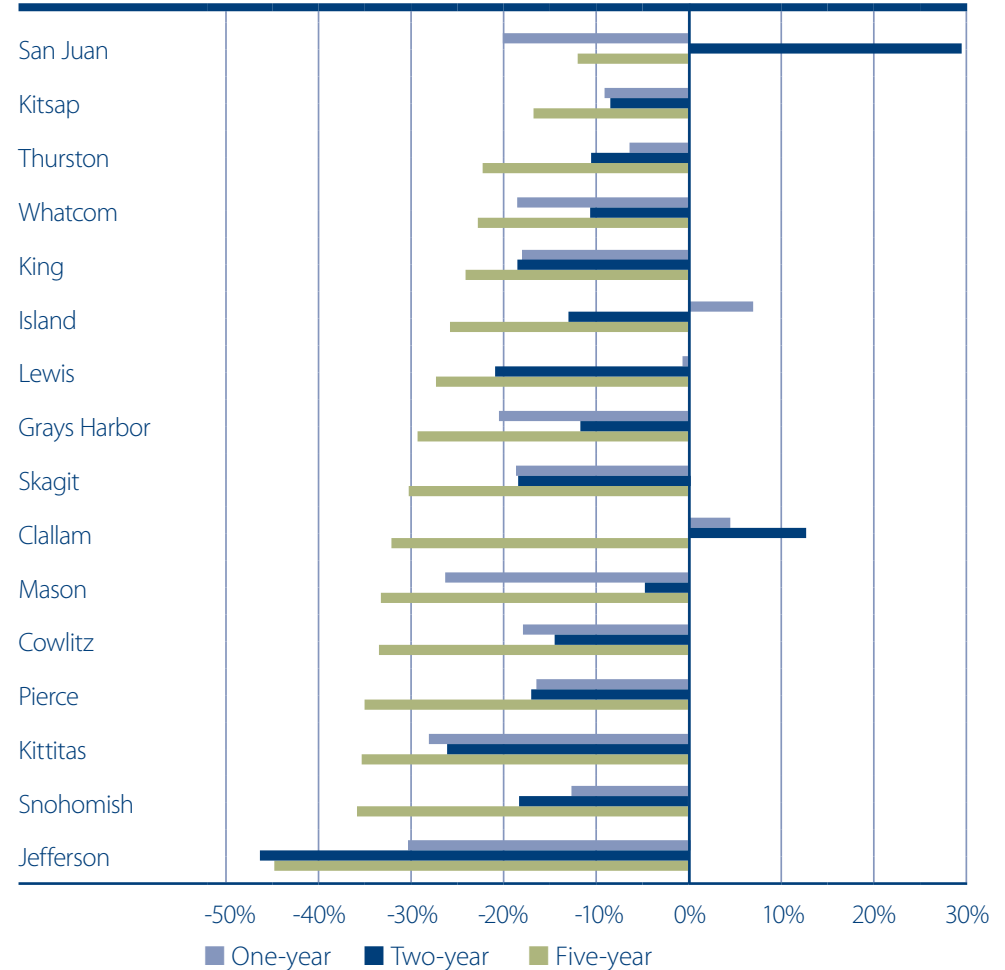
REGIONAL REAL ESTATE

RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Clallam	\$230,000	25.0%	4.5%	12.7%	-32.2%
Cowlitz	\$133,000	-14.7%	-17.4%	-14.2%	-33.5%
Grays Harbor	\$128,000	-0.8%	-20.5%	-11.7%	-29.3%
Island	\$255,000	-4.1%	7.1%	-13.0%	-25.9%
Jefferson	\$193,000	-36.1%	-30.1%	-46.1%	-44.7%
King	\$345,000	-9.7%	-18.1%	-18.6%	-24.3%
Kitsap	\$262,000	3.6%	-9.0%	-8.4%	-16.8%
Kittitas	\$192,000	3.2%	-28.1%	-26.2%	-35.1%
Lewis	\$136,000	-12.8%	-0.7%	-20.9%	-27.3%
Mason	\$156,000	-13.3%	-26.4%	-4.9%	-33.3%
Pierce	\$191,000	-4.0%	-16.6%	-17.0%	-35.0%
San Juan	\$499,000	28.6%	-20.0%	29.6%	-12.0%
Skagit	\$209,000	-18.4%	-18.7%	-18.4%	-30.1%
Snohomish	\$230,000	-3.4%	-12.5%	-18.1%	-35.9%
Thurston	\$212,000	-0.9%	-6.6%	-10.5%	-22.3%
Whatcom	\$236,000	-12.3%	-18.6%	-10.6%	-22.9%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

From an economic perspective, I will not budge from my contention that Washington State represents the best of all West Coast markets from the standpoint of economic potential. The diversification in our employment base and consistent growth in private companies puts us heads-and-shoulders above our counterparts.

In as much as I certainly do not expect the state to return to its prior peak employment soon—we are still shy by 154,000 jobs at a state level and 71,000 in the Seattle area—there are tangible signs of improvement that are encouraging.

The local real estate market remains unsettled, with distressed transactions accounting for a disproportionate percentage of overall sales. It continues to be important to get these cleared before we will start to see noticeable improvement. That said, the percentage price difference between foreclosure/short sales and market rate sales is shrinking; a sure sign that value is being found in many markets.

I remain a “glass half full” analyst and believe that we will continue to see improvement in all indices in 2012.

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.



windermere.com

© 2012 Windermere Services Company & Gardner Economics. All rights reserved.