

The Gardner Report

Windermere Real Estate is delighted to be partnered with Gardner Land Use 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.

ABOUT MATTHEW GARDNER

Mr. Gardner is a land use economist and principal with Gardner Land Use 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; sits as a trustee for the Washington State Center for Real Estate Research; the Urban Land Institutes Technical Assistance Panel; and represents the Master Builders Association as a Director on the Board of the Building Industry Association of Washington.

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.



REGIONAL ECONOMICS

Unfortunately, the full force of this recession is now with us. Our study into employment trends shows that only Grays Harbor, Kittitas and San Juan counties recorded year over year employment growth between March 2008 and March 2009; slim pickings indeed.

Approximately 100,000 private sector jobs were lost over the past 12-month period, equally split between goods-producing and service-producing sectors. As is to be expected, construction was a large component of this decline, as were trade, transportation and utilities, manufacturing and retail. Professional and business services also saw steady declines.

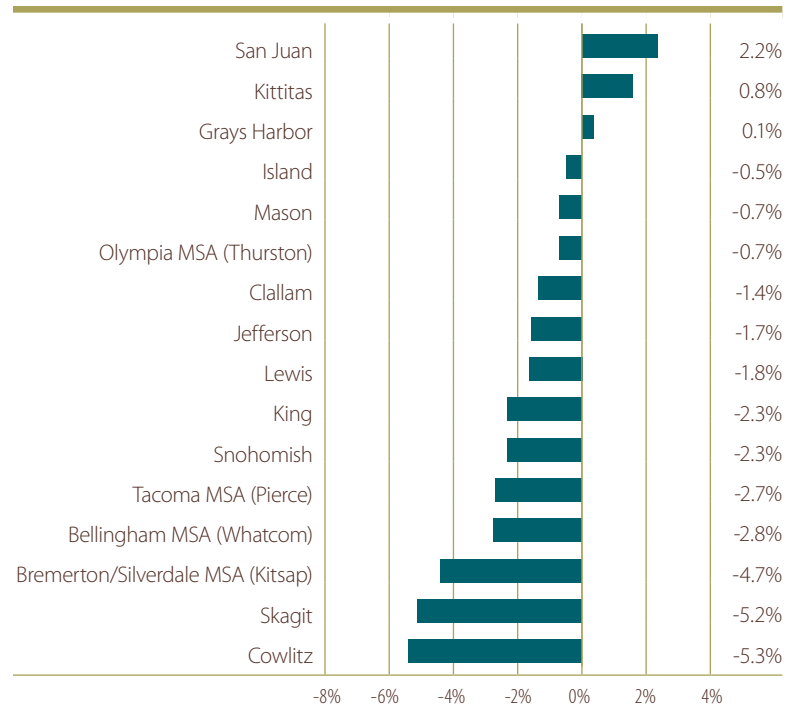
If there is a bright spark to this, however, it is that we are seeing a slight slowdown in layoff notices. This is important as the adage goes that companies need to “stop firing before they start hiring.” It is too early to call whether we have seen the worst of the job losses, but I will stick my head out and say that the second half of the year will be better than the first for our employment situation.

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth (in thousands) Mar 08 - Mar 09	Growth Rate
Bellingham MSA (Whatcom)	-2,880	-2.8%
Bremerton/Silverdale MSA (Kitsap)	-5,600	-4.7%
Clallam	-380	-1.4%
Cowlitz	-2,180	-5.3%
Grays Harbor	40	0.1%
Island	-160	-0.5%
Jefferson	-220	-1.7%
King	-23,600	-2.3%
Kittitas	150	0.8%
Lewis	-510	-1.8%
Mason	-160	-0.7%
Olympia MSA (Thurston)	-860	-0.7%
San Juan	170	2.2%
Skagit	-2,870	-5.2%
Snohomish	-8,010	-2.3%
Tacoma MSA (Pierce)	-10,090	-2.7%

Not Seasonally Adjusted

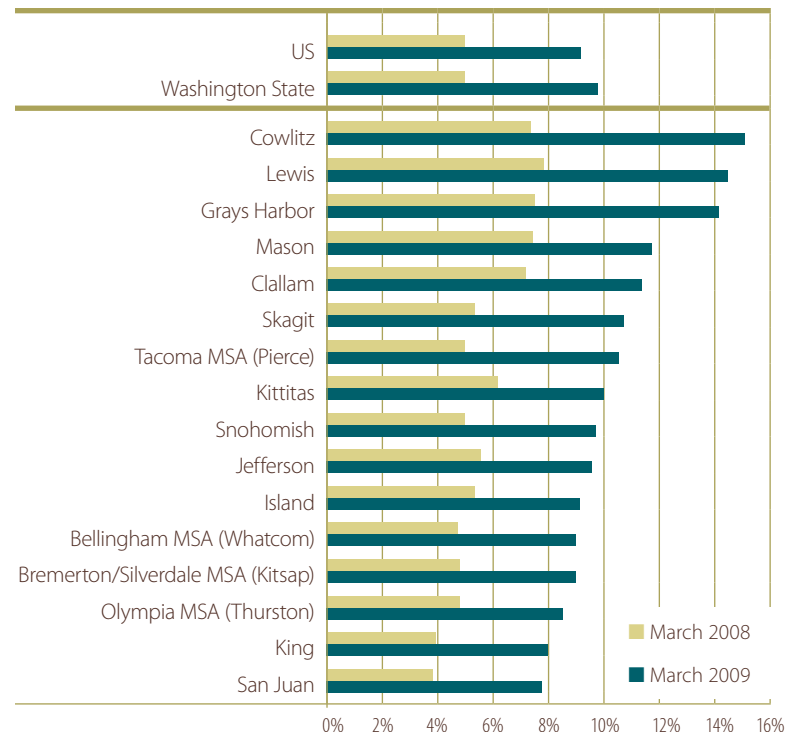
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	105,140	9.0%
Bremerton/Silverdale MSA (Kitsap)	119,440	8.7%
Clallam	28,150	11.3%
Cowlitz	41,150	15.0%
Grays Harbor	29,200	14.1%
Island	31,840	9.1%
Jefferson	13,200	9.5%
King	1,034,830	8.0%
Kittitas	19,150	10.0%
Lewis	29,130	14.4%
Mason	24,550	11.7%
Olympia MSA (Thurston)	127,920	8.5%
San Juan	7,920	7.7%
Skagit	53,190	10.8%
Snohomish	353,580	9.7%
Tacoma MSA (Pierce)	380,790	10.6%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Transactions totaled 7,862 in the first quarter of 2009, a figure 35 percent lower than in first quarter of 2008. Continuing the pattern we discussed in the previous quarter's report, declines in velocity appear to have stalled. This is good, as it may indicate a bottom to our market. Additionally, we continue to be encouraged by the across-the-board declines in inventory levels. Every county, other than San Juan and Jefferson, saw declining levels of available single family product. Pending sales, a good indicator of market stability when taken in context with available inventory, saw a decline of just 4 percent over the same period in 2008. If we counter this with a 14 percent decline in total active inventory, the result leads us to believe that the signs of a bottoming market might be upon us.

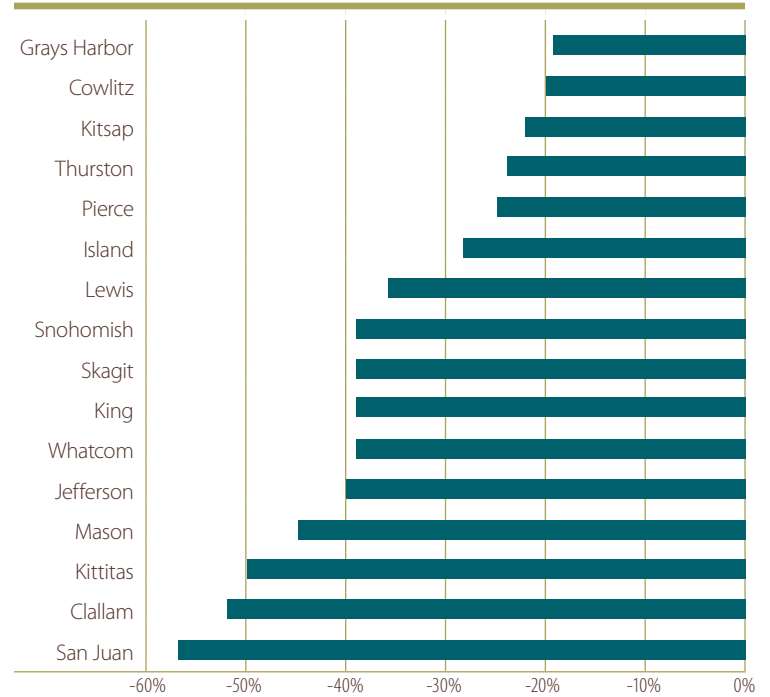
It is no surprise to see that annualized price changes indicate that our area's home values are down by 11.5 percent¹ year-over-year and 4.7 percent over the previous quarter. Green shoots can be seen, however, as there is a tangible slowing in the pace of price depreciation as more bargains were being found. We will be very interested to see what the late spring brings and whether we continue to see a plateau being reached. I expect that we will still see declines but, again, at levels that are not in excess of the current quarter with the second half of the year showing more tangible stability.

¹ Excluding San Juan County as the sampling was insignificant (4 transactions) and the median price almost tripled.

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date Mar 09	Year-to-Date Mar 08
King	3,020	4,955
Snohomish	1,218	1,989
Pierce	1,427	1,906
Kitsap	451	579
Mason	69	125
Skagit	172	281
Grays Harbor	116	144
Lewis	87	136
Cowlitz	114	142
Thurston	538	711
San Juan	14	32
Island	145	202
Kittitas	48	96
Jefferson	42	70
Whatcom	360	591
Clallam	41	88

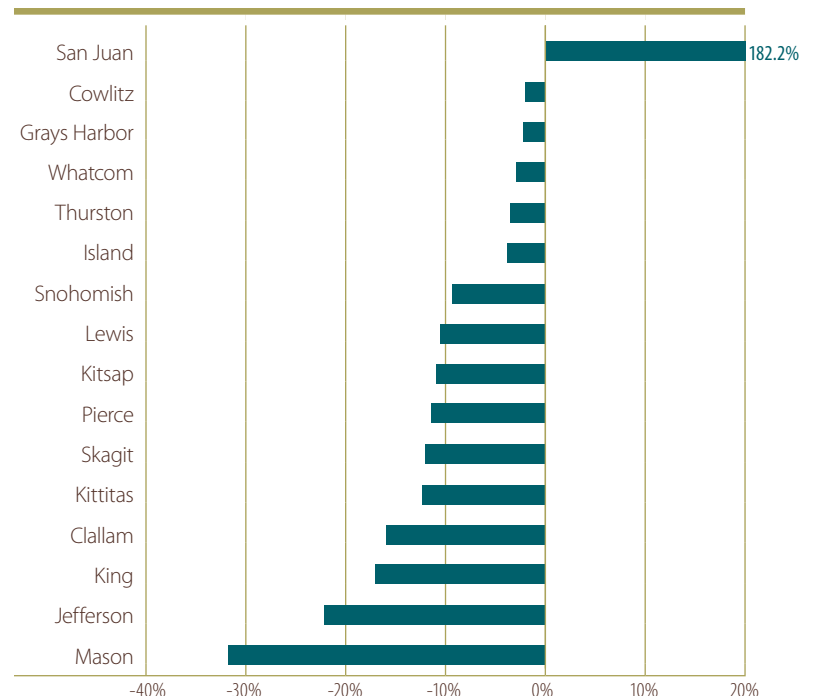
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Mar-Mar	Net Growth (in thousands of dollars)
King	-17.3%	-70.0
Snohomish	-9.0%	-30.1
Pierce	-11.6%	-30.0
Kitsap	-11.2%	-31.1
Mason	-33.0%	-64.0
Skagit	-11.8%	-32.0
Grays Harbor	-2.5%	-3.6
Lewis	-11.0%	-20.5
Cowlitz	-2.4%	-4.5
Thurston	-4.0%	-9.9
San Juan	182.2%	750.5
Island	-4.4%	-11.5
Kittitas	-12.0%	-28.3
Jefferson	-22.9%	-71.1
Whatcom	-3.0%	-7.9
Clallam	-16.7%	-44.0

HOME PRICE GROWTH RATE



Median Prices

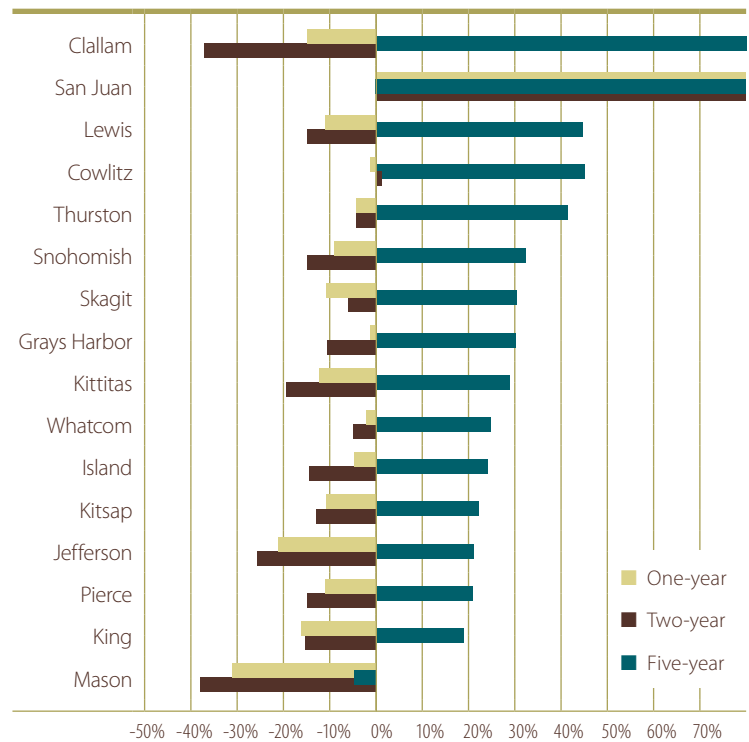
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS (MAJOR WASHINGTON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
King	\$335,000	-9.6%	-17.3%	-16.1%	19.6%
Snohomish	\$304,950	-0.7%	-9.0%	-15.3%	33.8%
Pierce	\$228,375	-2.8%	-11.6%	-16.9%	21.8%
Kitsap	\$246,495	11.3%	-11.2%	-13.5%	23.3%
Mason	\$130,000	-32.0%	-33.0%	-37.1%	-5.8%
Skagit	\$240,000	-5.9%	-11.8%	-6.5%	30.8%
Grays Harbor	\$142,250	-8.2%	-2.5%	-11.1%	30.5%
Lewis	\$166,000	-13.5%	-11.0%	-14.9%	44.5%
Cowlitz	\$180,000	15.4%	-2.4%	2.6%	44.0%
Thurston	\$240,000	-4.0%	-4.0%	-4.0%	41.3%
San Juan	\$1,162,500	155.5%	182.2%	156.9%	250.2%
Island	\$248,500	-10.5%	-4.4%	-14.3%	24.3%
Kittitas	\$206,675	-3.9%	-12.0%	-19.2%	29.2%
Jefferson	\$238,730	-0.4%	-22.9%	-26.7%	22.4%
Whatcom	\$257,000	2.8%	-3.0%	-5.2%	24.8%
Clallam	\$220,000	-7.9%	-16.7%	-36.6%	266.7%

*Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

In my last report, I suggested that I was, at last, seeing signs that the government is starting to realize that an economic recovery will only occur when stability returns to the housing market. Since our last publication, it has become clear that the Fed has successfully managed to hold down treasury and mortgage rates, but that appears to be their only accomplishment to date.

Long-term interest rates will begin to move higher as soon as investors see signs that the Federal Reserve is ready to tighten monetary policy. While the timing of any reversal of the Fed's current "aggressively easy" monetary policy is difficult to predict, tightening is not likely to occur until the second half of 2010 and rates are likely to retract a little further from where they currently stand. A welcome beam of light in this tough environment.

Looking at the U.S. as a whole, March 2009 data showed for the first time that housing sales are starting to gain traction in all regions across the country. In March, housing sales were down only 5.8 percent compared with March 2008, which represents the best performance on a year-over-year basis in the last 18 months. While the average price of homes sold fell 14.7 percent in March of 2009 from a year before, this was still the best price performance in six months.

The most active region for sales was in the Western states, where unit sales continued their run of increased housing activity. Unit sales here were up 18.7 percent compared to March 2008, but much of this is being driven by foreclosure activity. Other regions saw sales decrease between 10.3 and 16.2 percent with the Northeast region having the largest unit decline compared to a year ago.

Prices continue to be soft but improved measurably from January and February. The average price of homes sold nationally was down 14.7 percent from a year ago, and distressed sales in the Western states brought the average price of homes sold down 23 percent.

These results show that low interest rates, soft home prices and increased levels of affordability are countering other more negative news found in the economy. Home prices which have been under pressure for three years now are starting to firm somewhat; a trend that may continue in the months ahead. The economic picture will obviously continue to have an impact on home buying. Even with near-record-low interest rates, rising unemployment will continue to dampen the speed of a housing recovery. It appears that consumers are shaking off other bad news and returning to purchasing homes that fit their personal needs. Doubtless, the first-time home buyer tax credit, the loosening of underwriting guidelines for FHA mortgages and the Fed's intervention to lower rates are all factors assisting with the housing recovery.

Discussions with agents and brokers in our marketplace tell me much about what's actually happening "on the street." The general consensus is that there is increased traffic and many potential buyers "kicking the tires." They still appear hesitant, however, to pull the trigger as they search for indications of a market bottom. When that appears, I am sure that we will see higher transactional volume as buyers come back to the market.

Many believe, as do I, that we are closing in on the bottom of the real estate cycle and that the second half of 2009 will offer some stability in pricing. That is not to say that we are set to see upward pressure on prices, rather that we will stop the declines and that we will be entering a period of stable values.

Over the long-term, housing has proven to be a valuable and viable asset. Even with the declines in value that we have seen over the past almost two years, housing has still appreciated noticeably over time. This is a fact that gets too easily lost in the melee of negative media that surrounds us.