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THE
GARDNER
REPORT

WESTERN WASHINGTON | FIRST QUARTER 2013, VOLUME XXI

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.



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REGIONAL ECONOMICS

Generally speaking, I see steady improvement in the regional economy, which is pleasing. Employment growth is evident in a vast majority of the counties analyzed in this report, and unemployment rates continue to improve.

Repeating the numbers from the fourth quarter of the 2012 report, there were just three counties that saw total employment drop over the past 12-month period and the remaining 13 counties added a total of 41,350 new jobs. The growth was measured at a respectable 1.9 percent.

The figures still look quite good, but the rate of improvement—on an annualized basis—has started to slow. I would note that the region did lose 13,520 jobs between the end of 2012 and March of 2013. I am not, however, concerned as this was due to the State re-benchmarking its data.

Year-over-year, Kittitas County (+14.2%) grew at the fastest rate—it is a small county, but the service industry continues to expand. This was followed by San Juan (+2.7%), King (+2.6%), Mason (+2.5%), and Lewis (+2.4%) Counties. Job losses were modest, with Grays Harbor (-1.6%), Whatcom (-0.7%), and Kitsap (-0.6%) Counties suffering job losses; total employment in these counties contracted by 1,440 jobs.

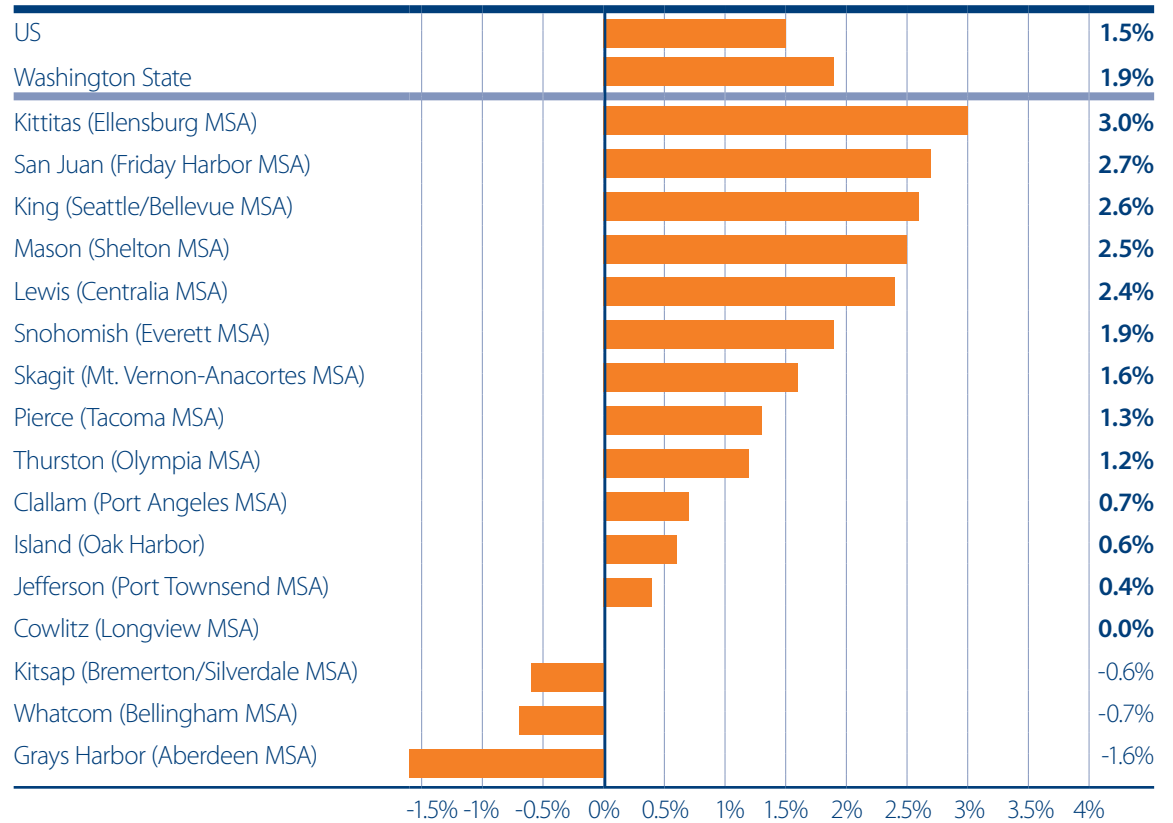
Attention remains focused on the central Puget Sound region which includes King, Snohomish, and Pierce Counties. Between them, they accounted for a remarkable 94 percent of total job gains.

The unemployment situation continues to improve, with all counties demonstrating lower unemployment rates than seen a year ago. The greatest improvement was seen in Snohomish County, where the rate dropped from 8.3 percent to 5.7 percent. This was followed by King County, whose rate dropped by 1.9 percent; Lewis County saw a 1.5 percent drop, and Kittitas County saw an unemployment rate that was 1.1 percent below that seen a year ago.

The data suggests that we are an economy that continues to grow, but at a more cautious rate. Whether this is a function of the expiration of the tax credits that were implemented at the start of the year, the ongoing sequester, or just businesses remaining cautious, is uncertain. However, as a result, I am dropping the grade from a "B+" to a "B" for this quarter.

Improvement in the job market is being wholly driven by the private sector—the first time that this has happened in the history of this country. It is quite possible that the lack of direction coming from the other Washington has started to affect hiring decisions in our state. Our growth has slowed, but I do not yet feel the need to become concerned over this.

PERCENT CHANGE IN ANNUAL EMPLOYMENT



NON AGRICULTURE EMPLOYMENT: MARCH 2012–MARCH 2013

County	Growth	Growth Rate	County	Growth	Growth Rate
Clallam (Port Angeles MSA)	160	0.7%	Lewis (Centralia MSA)	530	2.4%
Cowlitz (Longview MSA)	0	0.0%	Mason (Shelton MSA)	320	2.5%
Grays Harbor (Aberdeen MSA)	-340	-1.6%	Pierce (Tacoma MSA)	3,500	1.3%
Island (Oak Harbor)	90	0.6%	San Juan (Friday Harbor MSA)	130	2.7%
Jefferson (Port Townsend MSA)	30	0.4%	Skagit (Anacortes MSA)	700	1.6%
King (Seattle/Bellevue MSA)	30,700	2.6%	Snohomish (Everett MSA)	5,000	1.9%
Kitsap (Bremerton/Silverdale MSA)	-500	-0.6%	Thurston (Olympia MSA)	1,200	1.2%
Kittitas (Ellensburg MSA)	430	3.0%	Whatcom (Bellingham MSA)	-600	-0.7%
Washington State	53,000	1.9%	United States	1,980	1.5%

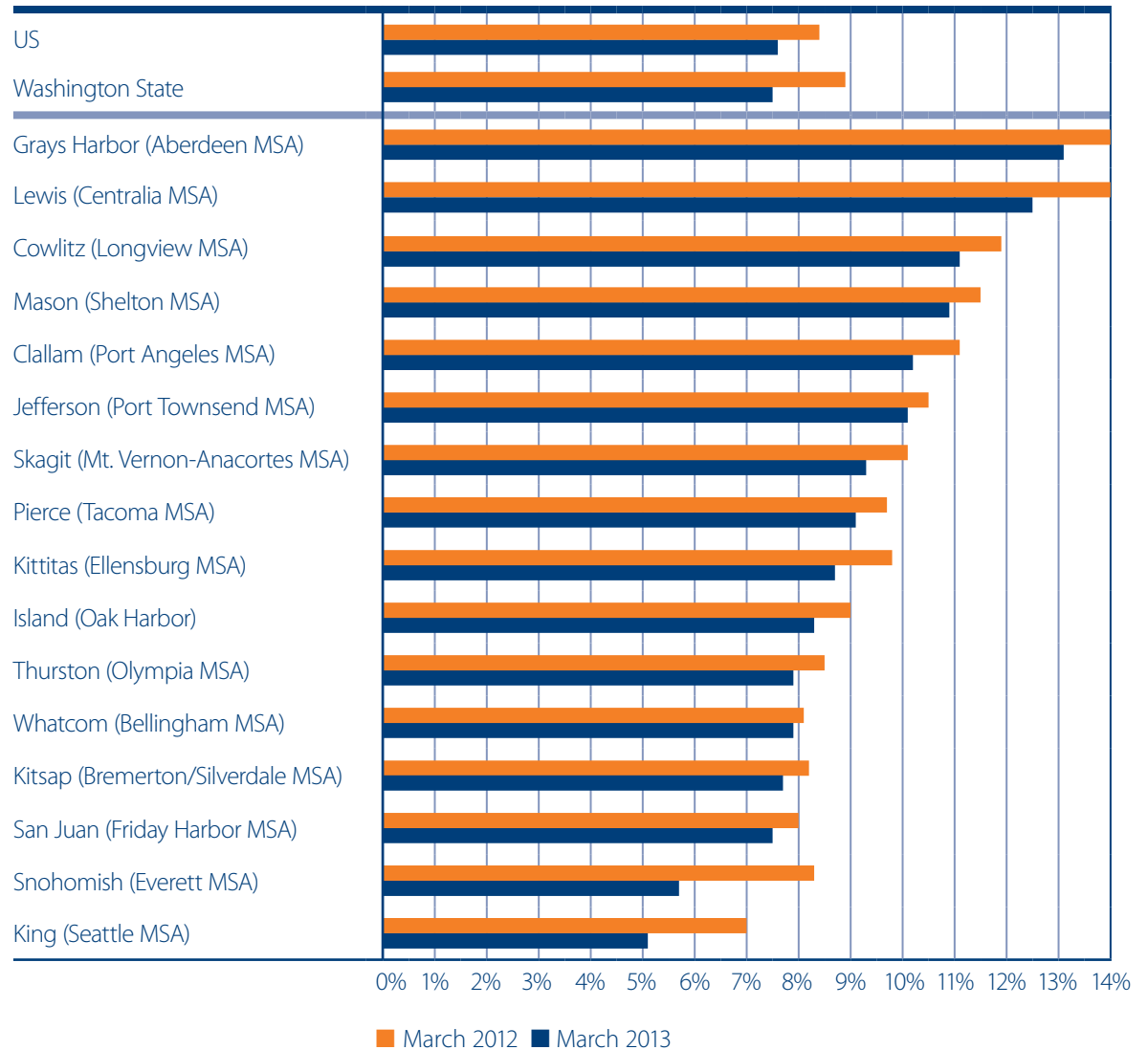
Not Seasonally Adjusted

REGIONAL ECONOMICS

UNEMPLOYMENT RATE COMPARISON

County (Metropolitan Area)	Employment	Unemployment Rate
Clallam (Port Angeles MSA)	21,730	10.2%
Cowlitz (Longview MSA)	35,400	11.1%
Grays Harbor (Aberdeen MSA)	20,830	13.1%
Island (Oak Harbor)	15,250	8.3%
Jefferson (Port Townsend MSA)	7,800	10.1%
King (Seattle MSA)	1,193,900	5.1%
Kitsap (Bremerton/Silverdale MSA)	80,800	7.7%
Kittitas (Ellensburg MSA)	14,870	8.7%
Lewis (Centralia MSA)	22,880	12.5%
Mason (Shelton MSA)	12,960	10.9%
Pierce (Tacoma MSA)	269,500	9.1%
San Juan (Friday Harbor MSA)	5,000	7.5%
Skagit (Mt. Vernon-Anacortes MSA)	44,300	9.3%
Snohomish (Everett MSA)	262,200	5.7%
Thurston (Olympia MSA)	98,800	7.9%
Whatcom (Bellingham MSA)	81,000	7.9%

UNEMPLOYMENT RATE YEAR-OVER-YEAR



REGIONAL REAL ESTATE

The Samuel Taylor Coleridge quote, “*Water, water everywhere, nor any drop to drink*”, from the poem “The Rime of the Ancient Mariner”, is somewhat apt when looking at our regional real estate market. Buyers are driving through neighborhoods looking for homes, but the choices are scant.

Without a doubt, there are far more buyers than sellers in the market right now—and this is becoming an issue. That said, the region registered 11,349 home sales in the first quarter of 2013—an increase of 9.7 percent over the same quarter in 2012. Inasmuch as this is certainly positive, buyers are complaining not only about lack of choice, but also that intense bidding for homes that are on the market may be the precursor to another housing bubble.

Although I can sympathize with buyers, I do not believe that we are entering another bubble, but rather that the market has regained its confidence.

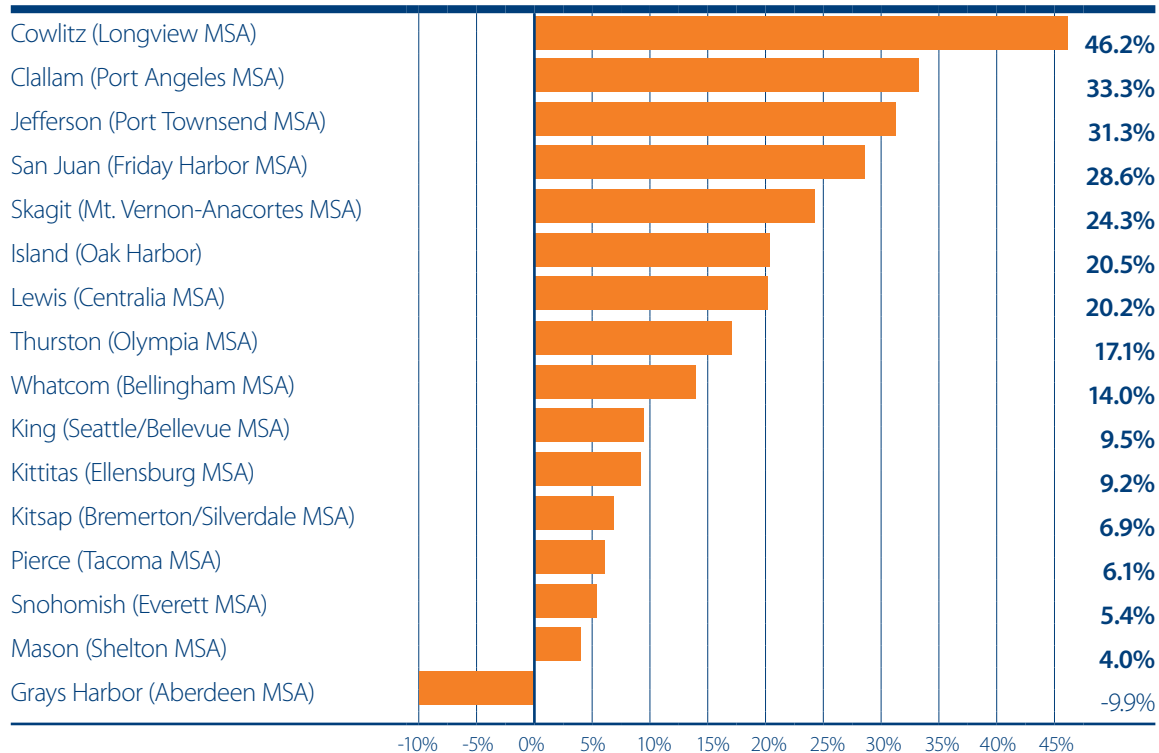
As noted in our last report, all but one county exhibited improving sales velocities in the first quarter when compared to the first three months of 2012. Grays Harbor County still remains the laggard, but this is wholly due to its size.

Fifteen counties saw improving sales in the first quarter when compared to the same period in 2012, with growth ranging from 4.5 percent (Mason County) to over 46 percent (Cowlitz County).

Is this rate of growth sustainable in 2013? That, without a doubt, is a crucial question. I believe that the lack of inventory is a function of two distinct situations. Firstly, banks are still slow in getting distressed inventory to market. I hope that this will improve as they dedicate more assets to the situation. Secondly, there are still a large number of homeowners who wish to sell, but are marginally underwater on their homes. These people cannot refinance at more preferential rates and would, therefore, like to sell but are not in a position to write a check out to the bank at closing. They are waiting for the proverbial “tide” to come in and raise the value of their homes sufficiently so that they can get out from underneath it.

This is an interesting market with well-positioned, well-located homes flying out the door. The new construction community has not stepped up production to handle the excess demand and the onus is still on the resale market. In aggregate, listings did grow in March but not to a level necessary to satisfy the market. Improvement in late spring and early summer will be crucial if we are to continue this solid increase in sales.

PERCENT CHANGE IN YEAR-TO-DATE CLOSED SALES



CLOSED SALES ACTIVITY OF EXISTING SINGLE-FAMILY HOME & CONDO

County	YTD Mar 13	YTD Mar 12	County	YTD Mar 13	YTD Mar 12
Clallam (Port Angeles MSA)	96	72	Lewis (Centralia MSA)	137	114
Cowlitz (Longview MSA)	190	130	Mason (Shelton MSA)	140	134
Grays Harbor (Aberdeen MSA)	128	142	Pierce (Tacoma MSA)	1,887	1,778
Island (Oak Harbor)	194	161	San Juan (Friday Harbor MSA)	45	35
Jefferson (Port Townsend MSA)	88	67	Skagit (Anacortes MSA)	266	214
King (Seattle/Bellevue MSA)	4,888	4,462	Snohomish (Everett MSA)	1,766	1,675
Kitsap (Bremerton/Silverdale MSA)	530	496	Thurston (Olympia MSA)	472	403
Kittitas (Ellensburg MSA)	83	76	Whatcom (Bellingham MSA)	439	385

REGIONAL REAL ESTATE

As shown in the chart to the right, 11 counties saw the average sales prices at levels above that seen a year ago, one county saw no growth, and four counties saw prices below that seen in March of 2012. In aggregate, the weighted average price of transacted homes in the counties analyzed was 12.4 percent higher at the end of the first quarter of 2013 than in March of 2012.

Of the counties that saw appreciation, the most pronounced gains were seen in the volatile San Juan County, where prices have risen by 34.1 percent. Significant additional gains were seen in Cowlitz (+27.5%), Snohomish (+16.2%), King (+15.7%), Jefferson (+12.7%), and Grays Harbor (+10.9%) Counties. Declines were limited to Whatcom (-7.0%), Clallam (-6.2%), Kitsap (-4.4%), and Lewis (-2.8%) Counties.

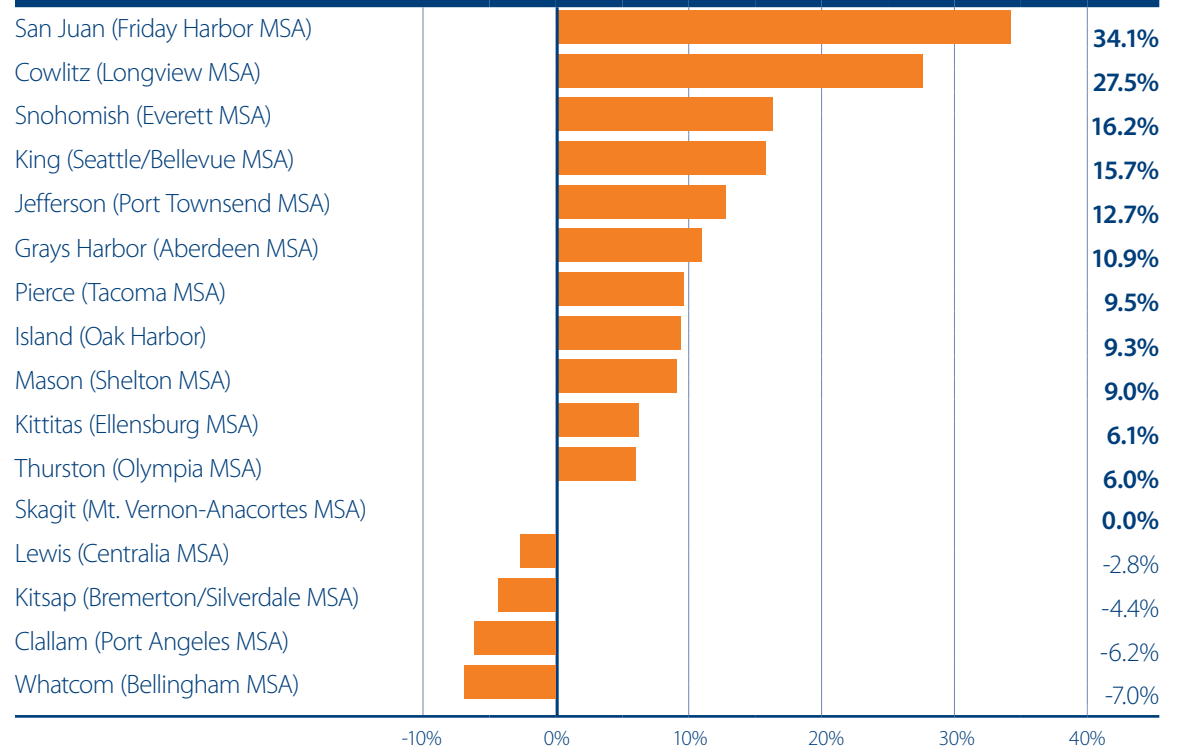
Short-term trends, however, do not explain the bigger picture. If we are to look at a longer timeframe, it is clear to me that we are a market that has not only stabilized but is recovering nicely. Home price escalation over the past two years can be seen in nine of the 16 counties analyzed. Remembering that in mid-2010 the First Time Homebuyer Tax Credit (which artificially inflated, albeit temporarily, home prices) expired, it is good to see that we have now exceeded those prices in many areas. Additionally, there are now two counties where sale prices are higher than in the dark days of early 2008.

Interest rates for a 30-year fixed mortgage are 0.38 percent lower now than they were a year ago, but have been headed higher since December—surely another factor in getting buyers into the market. I believe that we will not retest the lows seen in November of last year, but rather we will see modestly increasing rates as we move through the year. This should not negatively impact prices but may actually function to get even more buyers into the market.

Mortgages are now available, but the required down payments and credit scores are still higher than I would like to see. I anticipate that we will see some further, appropriate, easing by banks and this lends credence to the likelihood of additional increases in prices as we move through the year.

The record appears to be stuck relative to my grade for housing. I have been stuck at a “C” grade for the past two quarters and I am afraid that I cannot change this yet.

HOME PRICE GROWTH RATE



SALES PRICE SINGLE-FAMILY & CONDO: MARCH 2012–MARCH 2013

County	Growth Rate	Net Growth (\$000's)	County	Growth Rate	Net Growth (\$000's)
Clallam (Port Angeles MSA)	-6.2%	-13.0	Lewis (Centralia MSA)	-2.8%	-4.0
Cowlitz (Longview MSA)	27.5%	36.0	Mason (Shelton MSA)	9.0%	13.0
Grays Harbor (Aberdeen MSA)	10.9%	11.0	Pierce (Tacoma MSA)	9.5%	18.0
Island (Oak Harbor)	9.3%	25.0	San Juan (Friday Harbor MSA)	34.1%	124.0
Jefferson (Port Townsend MSA)	12.7%	33.0	Skagit (Anacortes MSA)	0.0%	0.0
King (Seattle/Bellevue MSA)	15.7%	57.0	Snohomish (Everett MSA)	16.2%	38.0
Kitsap (Bremerton/Silverdale MSA)	-4.4%	-13.0	Thurston (Olympia MSA)	6.0%	12.0
Kittitas (Ellensburg MSA)	6.1%	18.0	Whatcom (Bellingham MSA)	-7.0%	-19.0

Average \$'s

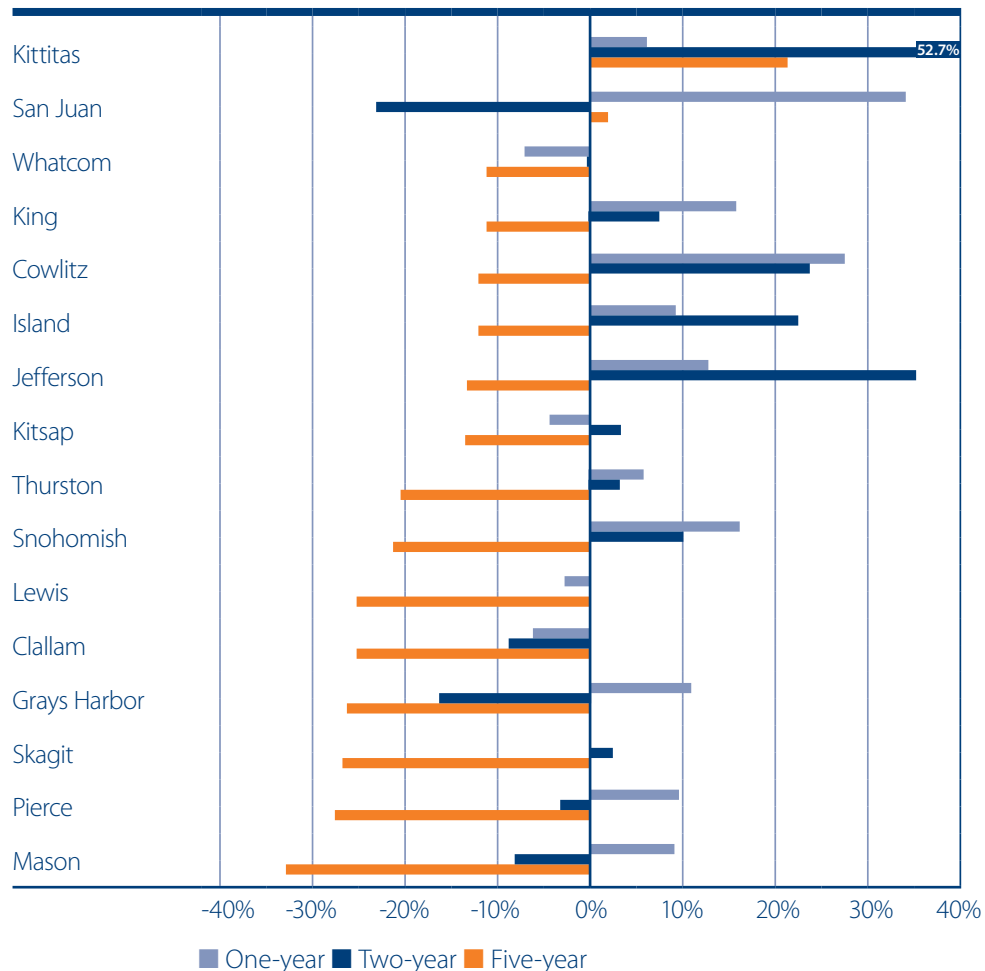
REGIONAL REAL ESTATE

SINGLE-FAMILY HOME PRICE TRENDS

County (Metropolitan Area)	Average Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Clallam	\$196,000	-3.4%	-6.2%	-8.8%	-25.8%
Cowlitz	\$167,000	12.1%	27.5%	23.7%	-12.1%
Grays Harbor	\$112,000	-18.8%	10.9%	-16.4%	-26.3%
Island	\$295,000	-5.8%	9.3%	22.4%	-12.2%
Jefferson	\$292,000	11.9%	12.7%	35.2%	-13.4%
King	\$419,000	1.0%	15.7%	7.4%	-11.2%
Kitsap	\$281,000	6.0%	-4.4%	3.3%	-13.5%
Kittitas	\$313,000	3.3%	6.1%	52.7%	21.3%
Lewis	\$139,000	-15.8%	-2.8%	0.0%	-25.3%
Mason	\$157,000	-3.7%	9.0%	-8.2%	-32.9%
Pierce	\$207,000	-7.6%	9.5%	-3.3%	-27.6%
San Juan	\$488,000	-30.0%	34.1%	-23.0%	1.9%
Skagit	\$254,000	6.7%	0.0%	2.4%	-26.8%
Snohomish	\$273,000	2.6%	16.2%	10.1%	-21.3%
Thurston	\$213,000	1.9%	6.0%	3.4%	-20.5%
Whatcom	\$253,000	-7.3%	-7.0%	-0.4%	-11.2%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE GROWTH RATE



CONCLUSIONS

Economic growth in our region continues, but at a more moderated rate. Is this a sign of a slowdown in the economy, or are we returning to a more moderated pace of improvement? I believe that we are taking a bit of a breather, but that as consumers start to become more comfortable with their own financial situations—whether this be driven by their job situation, improvement in the equity markets or improving home values—they will start to consume goods and services at a faster pace, which will lead to additional employment growth.

Some are getting concerned that the market appears to be demonstrating signs of “froth”. It is my opinion that rising home prices, in concert with modestly rising interest rates, have pushed many would-be buyers off the fence and in search of a new home. This has stimulated demand well beyond the level of home supply. As such, prices have jumped.

I do not see this as a bubble in the making. Underwriting is still stringent, with high credit scores and down payments required. Additionally, appraisers remain appropriately cautious, which is sure to temper the likelihood of a new housing bubble.

Competition is certainly rife! Not only between buyers looking for their own use, but also speculators with pockets of cash, looking for an alternative investment vehicle. I do understand buyers’ frustrations at the moment, but I believe the healing process that is underway in the housing market, while somewhat painful, will settle down eventually.

I still believe that home values will continue to appreciate in 2013 and we should see more homes for sale as prices rise to a point that frees up future sellers.

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 chairs the Board of Trustees at the Washington Center for Real Estate Research at the University of Washington; sits on the Urban Land Institutes Technical Assistance Panel; is an Advisory Board Member for the Runstad Center for Real Estate Studies at the University of Washington and is the Editor of the Washington State University’s Central Puget Sound Real Estate Research Report.

He is also the retained economist for the Master Builders Association of King & Snohomish Counties. He has twenty-five years of professional experience in the U.K. and U.S.

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.



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