

# *The Gardner Report*

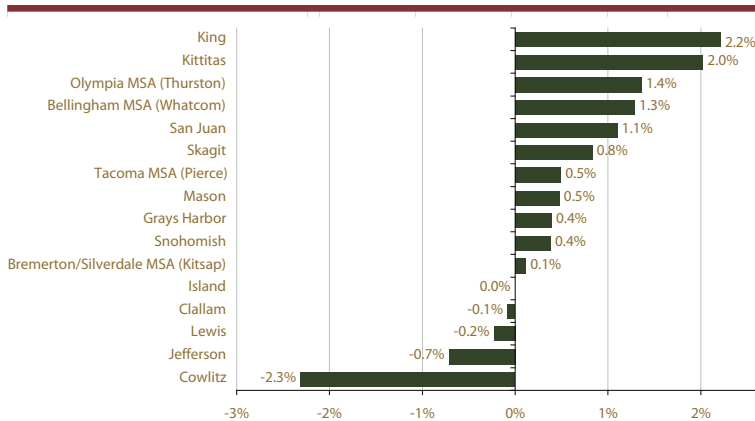
This is the second in a series of economic reports from Windermere and Gardner Johnson Land Use Economics. Our desire is to provide you with accurate and relevant data on the state of the Western Washington real estate market. Again, the news is not great. And, as before, we believe that you and your customers are best served by transparency. Please use this information wisely.

## REGIONAL ECONOMICS

In a somewhat contrarian move vis-à-vis much of the U.S., our market continues to grow its job base; however, it is clearly apparent that our growth rate has started to slow. The sixteen-county region still added an impressive 32,500 new jobs between June of 2007 and June of 2008. This growth, while notable in comparison with much of the rest of the U.S., shows an increasing dichotomy between the central Puget Sound (King, Snohomish and Pierce counties) and the rest of the region. The tri-county region added over 29,000 (ninety percent) of the newly created positions. In aggregate, we actually lost jobs in four of the counties, however, these losses were extremely small.

Not surprisingly, we are now starting to see some increases in our unemployment rate, but rate increases vary widely with the central Puget Sound still faring better than more remote areas. The increases in the overall unemployment rates are, for the most part, a function of contraction in construction and financial activity sectors that are a direct result of the housing downturn. Currently, there are just three counties with unemployment rates below the five percent mark. The highs were seen in Lewis and Grays Harbor counties with unemployment at 8.8 and 8.2% respectively. (The December storms are continuing to show their negative impacts on Grays Harbor County as well as in Lewis County.) It is my opinion that we will continue to see upward pressure on unemployment rates as we continue to come to terms with stiflingly high gas prices and low consumer sentiment. However, I do not believe that all is a loss and we will continue to create new jobs through the balance of the year, albeit at a slower pace than we have seen during this past business cycle. This is important as job creation is a basic requirement for housing demand.

### PERCENT CHANGE IN ANNUAL EMPLOYMENT



### NON-AGRICULTURE EMPLOYMENT SITUATION

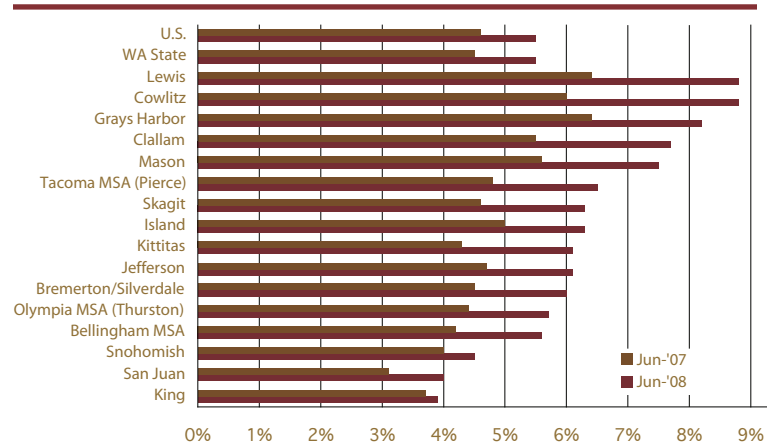
County	Growth Jun 07 - Jun 08	Growth Rate
Bellingham MSA (Whatcom)	1,100	1.3%
Bremerton/Silverdale MSA (Kitsap)	100	0.1%
Clallam	-20	-0.1%
Cowlitz	-900	-2.3%
Grays Harbor	100	0.4%
Island	0	0.0%
Jefferson	-70	-0.7%
King	26,700	2.2%
Kittitas	320	2.0%
Lewis	-60	-0.2%
Mason	70	0.5%
Olympia MSA (Thurston)	1,400	1.4%
San Juan	70	1.1%
Skagit	400	0.8%
Snohomish	1,000	0.4%
Tacoma MSA (Pierce)	1,400	0.5%

(Not Seasonally Adjusted)

### UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	102,760	5.6%
Bremerton/Silverdale MSA (Kitsap)	116,360	6.0%
Clallam	28,160	7.7%
Cowlitz	38,000	8.8%
Grays Harbor	29,250	8.2%
Island	31,140	6.3%
Jefferson	12,920	6.1%
King	1,040,140	3.9%
Kittitas	20,100	6.1%
Lewis	28,770	8.8%
Mason	23,470	7.5%
Olympia MSA (Thurston)	122,640	5.7%
San Juan	8,790	4.0%
Skagit	55,500	6.3%
Snohomish	355,390	4.5%
Tacoma MSA (Pierce)	366,940	6.5%
Tacoma MSA (Pierce)	375,840	5.9%

### UNEMPLOYMENT RATE COMPARISON



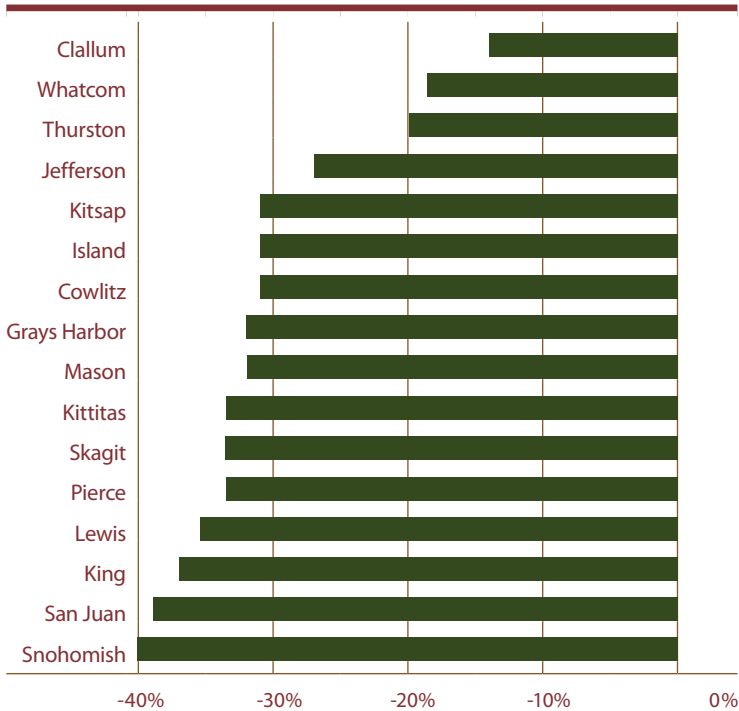
## REGIONAL REAL ESTATE

In our last edition, we remarked that there were some interesting inconsistencies in the percentage declines in sales transactions across the region; unfortunately, however, we appear to now be seeing relatively equal declines across the board. In the second quarter of this year, transactional velocities remained stubbornly low with all of the counties surveyed seeing decreases of between 25 to 40 percent from the same timeframe in 2007—overall, sales are down 35 percent. It is clear that the spring market that was hoped for did not appear. It would be reasonable to hypothesize that the market is still in fear of further price reductions, and that credit continues to be tight for those who wish to buy. 2008 is certainly proving to be a transitional year.

All but one of the counties surveyed have negative year-over-year appreciation. The only area that showed appreciation was in Jefferson County where prices are up by 4.2 percent. Region wide, prices have declined by 5.7 percent over the same month in 2007. For the better part, the greatest declines came in markets that have the smallest inventories. The exception to this is in Snohomish County where prices declined by 7.2 percent.

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### PERCENT CHANGE IN YTD CLOSED SALES



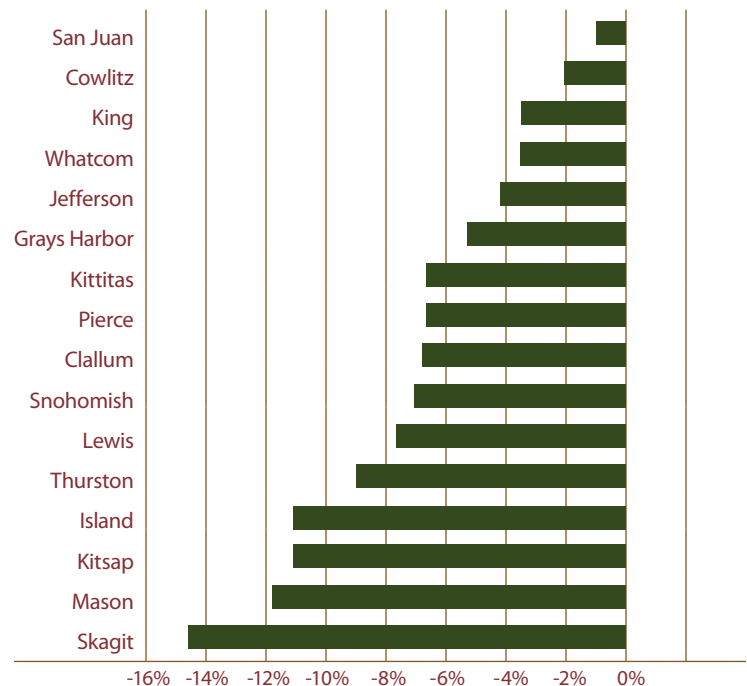
### CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	YTD Jun 08	YTD Jun 07
King	11,204	17,667
Snohomish	4,235	7,058
Pierce	4,421	6,608
Kitsap	1,288	1,862
Mason	323	477
Skagit	652	972
Grays Harbor	356	521
Lewis	277	427
Cowlitz	355	518
Thurston	1,614	2,148
San Juan	64	105
Island	455	660
Kittitas	196	292
Jefferson	153	211
Whatcom	1,296	1,609
Clallam	197	229

### MEDIAN SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Jun 07 - Jun 08	Net Growth (in thousands of dollars)
King	-3.6%	-15.0
Snohomish	-7.2%	-25.6
Pierce	-6.6%	-18.3
Kitsap	-11.0%	-33.3
Mason	-11.8%	-26.0
Skagit	-14.4%	-43.8
Grays Harbor	-5.4%	-9.1
Lewis	-7.7%	-15.0
Cowlitz	-2.1%	-4.3
Thurston	-9.2%	-25.0
San Juan	-1.1%	-5.7
Island	-11.0%	-33.9
Kittitas	-6.1%	-17.2
Jefferson	4.2%	11.8
Whatcom	-3.7%	-10.8
Clallam	-6.8%	-19.0

### HOME PRICE GROWTH RATE



## REGIONAL REAL ESTATE CONTINUED

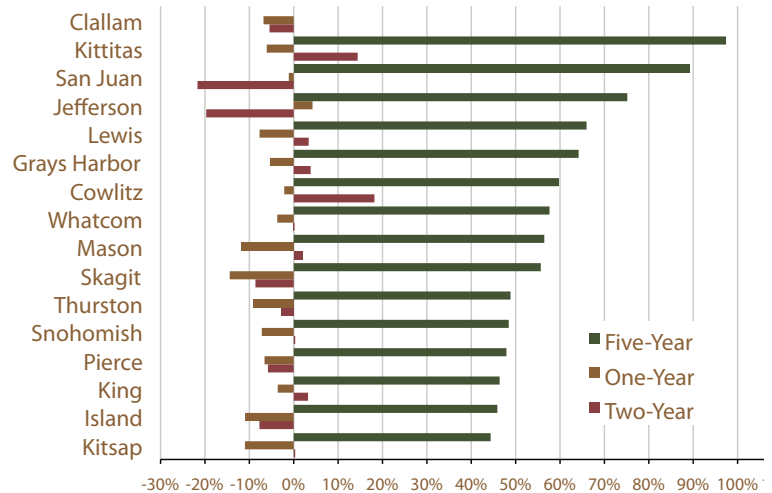
Regular readers of this report will note that we have now included the five-year appreciation rate of housing in addition to the traditional shorter-term view. This is important as we tend to look at our world in the here-and-now, ignoring longer trends that, as often as not, paint a different picture. From June of 2003 to June of this year, the average increase in home values is an astounding 60 percent in our market. In certain counties, such as Kittitas, values have almost doubled in 60 months. This is worthy of consideration as housing in our area remains a positive long-term asset.

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

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1-Yr.*	2-Yr.*	5-Yr.*
King	\$400,000	-1%	-4%	3%	46%
Snohomish	\$329,450	-2%	-7%	0%	48%
Pierce	\$259,250	0%	-7%	-6%	48%
Kitsap	\$269,950	-3%	-11%	0%	44%
Mason	\$194,000	-0%	-12%	2%	57%
Skagit	\$259,950	-4%	-14%	-9%	56%
Grays Harbor	\$160,900	10%	-5%	4%	64%
Lewis	\$180,000	-4%	-8%	3%	66%
Cowlitz	\$195,000	6%	-2%	18%	60%
Thurston	\$247,000	-1%	-9%	-3%	49%
San Juan	\$501,250	22%	-1%	-22%	89%
Island	\$274,977	6%	-11%	-8%	46%
Kittitas	\$266,000	13%	6%	14%	97%
Jefferson	\$289,000	-7%	4%	-20%	75%
Whatcom	\$279,000	5%	-4%	-0%	58%
Clallam	\$260,000	7%	-7%	-6%	N/A

\*Year over year from most recent month surveyed.

### MEDIAN HOME PRICE ESCALATION RATE



## CONCLUSIONS

It appears that, from this author's perspective, the market has some further attrition to face. On one hand, it is pleasing to see that the number of new listings is declining in almost all counties and that the average list price is lower now than a year ago. At the same time, however, uncertainty in the national economy, coupled with inflationary concerns driven primarily by increasing prices and instability in the equity markets, are still keeping many buyers on the sidelines.

We believe that they will return to the market when they see greater stability in sale prices and that this should start to emerge toward the end of this year.

## ABOUT MATTHEW GARDNER

Mr. Gardner is a land use economist and principal with Gardner Johnson 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.



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