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WINDERMERE REAL ESTATE

THE
GARDNER
REPORT

OREGON & SOUTHWEST WASHINGTON | THIRD QUARTER 2011, VOLUME XV

Windermere Real Estate is proud to partner with Gardner Economics to provide this analysis and commentary on the Oregon and Southwest 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 Oregon and Southwest 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 so we can return to the days of home value and employment growth. Unfortunately, however, the economy appears to be acting very tortoise-like with slow, plodding improvements and no great sense of urgency at all.

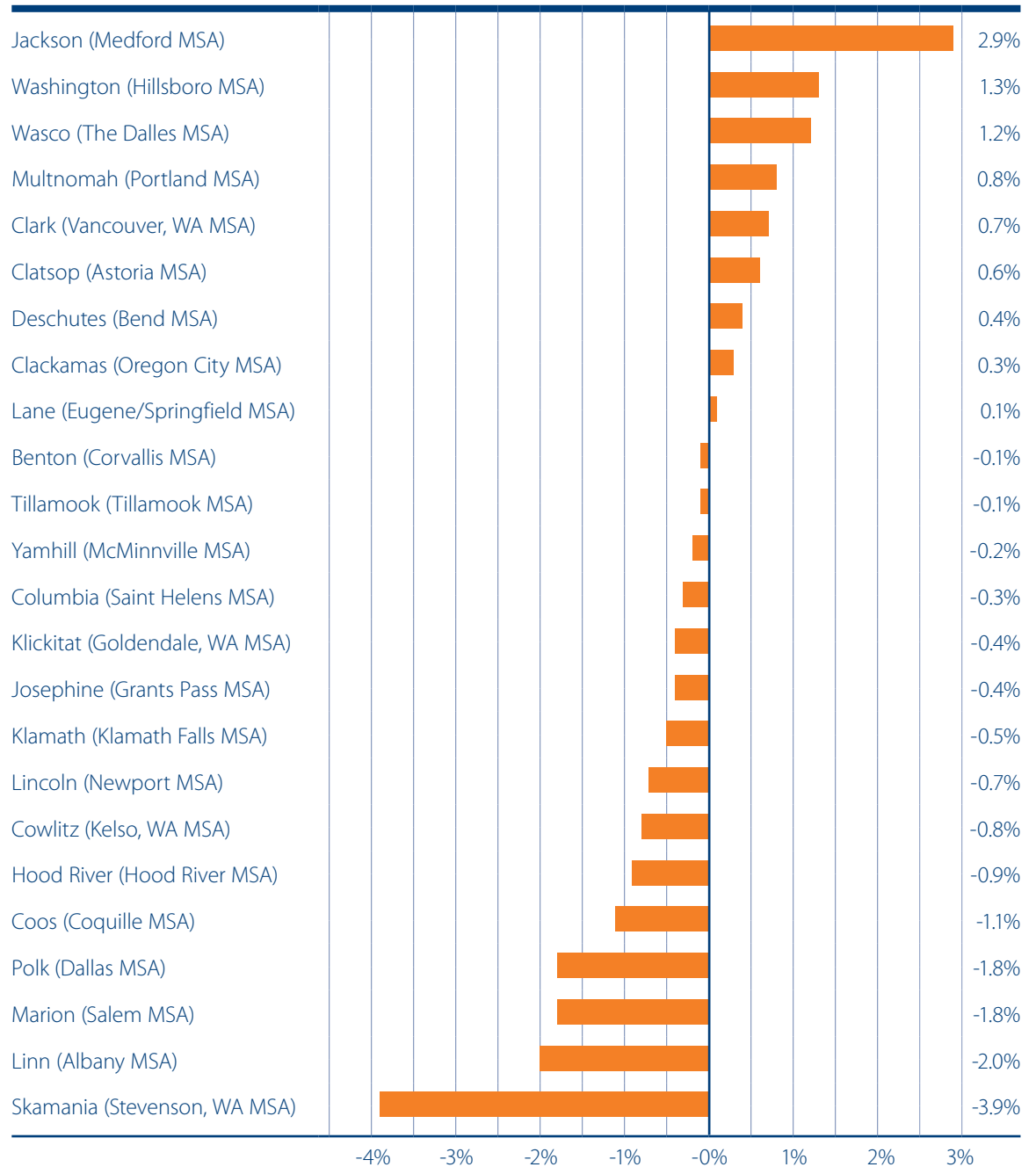
When I turn my attentions to the current employment situation, it's clear to me that the region continues to grow—albeit at a tortoise's pace (with employment levels now just a little over 5,000 higher than they were a year ago)—but our growth rates have improved in the past quarter with the addition of 9,700 positions.

The growth in our market continues to be divided to the same degree as was seen in the second quarter data. Nine counties experienced a net increase in year-over-year employment, matching the second quarter. The greatest percentage growth areas were Jackson County (2.9%), Washington County (1.3%), and Wasco County (1.2%). Job losses were most profound in Skamania County (-3.9%), followed by Linn County (-2.0%), and Marion and Polk Counties, which contracted by 1.3 percent respectively.

From an unemployment perspective, rates across our region declined with only four counties showing increasing unemployment rates. The issue here is that much of this improvement is a function of potential employees ceasing their search for work. As they do this, they cease being counted. The greatest improvements were found in the Bend metropolitan area, Lane, Linn, and Jackson Counties. Markets where the unemployment rate grew the most were Clark, Skamania, and Klickitat Counties.

Overall, I am giving the employment situation a “D” grade, as 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—are holding businesses back from increasing their employment base. As and when we see more concerted efforts coming out of Washington, D.C., I fully anticipate that the employment picture will change at more than a tortoise's pace!

PERCENT CHANGE IN ANNUAL EMPLOYMENT



MACRO & REGIONAL ECONOMICS

NON-AGRICULTURE EMPLOYMENT SITUATION: SEPTEMBER 2010–SEPTEMBER 2011

County (MSA)	Growth	Growth Rate	County (MSA)	Growth	Growth Rate	County (MSA)	Growth	Growth Rate
Benton (Corvallis MSA)	-40	-0.1%	Hood River (Hood River MSA)	-90	-0.9%	Marion (Salem MSA)	-2,657	-1.8%
Clackamas (Oregon City MSA)	400	0.3%	Jackson (Medford MSA)	2,170	2.9%	Multnomah (Portland MSA)	3,400	0.8%
Clark (Vancouver, WA MSA)	900	0.7%	Josephine (Grants Pass MSA)	-90	-0.4%	Polk (Dallas MSA)	-688	-1.8%
Clatsop (Astoria MSA)	110	0.6%	Klamath (Klamath Falls MSA)	-120	-0.5%	Skamania (Stevenson, WA MSA)	-90	-3.9%
Columbia (Saint Helens MSA)	-30	-0.3%	Klickitat (Goldendale, WA MSA)	-20	-0.4%	Tillamook (Tillamook MSA)	-10	-0.1%
Coos (Coquille MSA)	-240	-1.1%	Lane (Eugene/Springfield MSA)	100	0.1%	Wasco (The Dalles MSA)	110	1.2%
Cowlitz (Kelso, WA MSA)	-300	-0.8%	Lincoln (Newport MSA)	-130	-0.7%	Washington (Hillsboro MSA)	3,000	1.3%
Deschutes (Bend MSA)	230	0.4%	Linn (Albany MSA)	-780	-2.0%	Yamhill (McMinnville MSA)	-60	-0.2%

Not Seasonally Adjusted

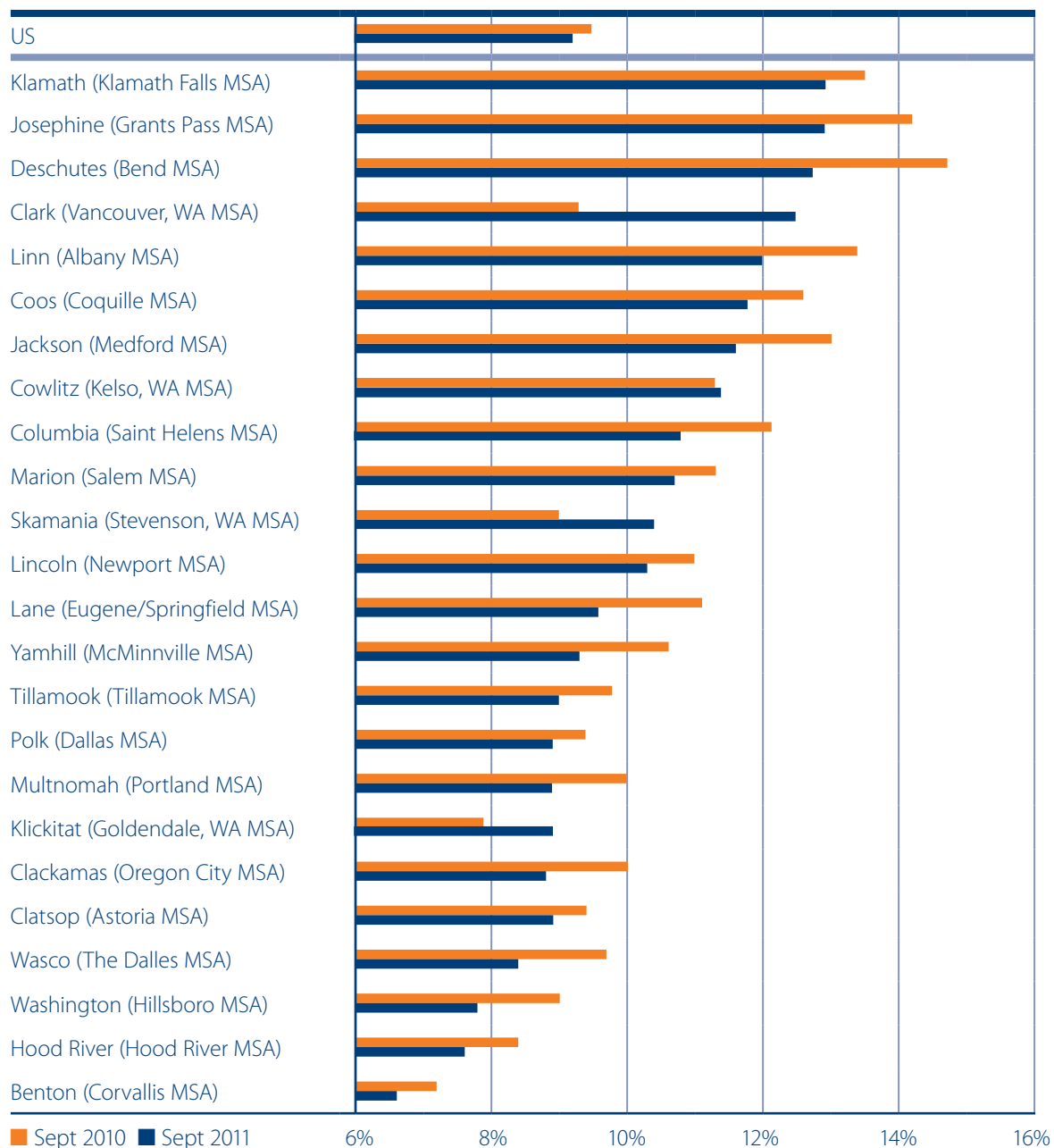
MACRO & REGIONAL ECONOMICS

UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Benton (Corvallis MSA)	36,690	6.6%
Clackamas (Oregon City MSA)	135,000	8.8%
Clark (Vancouver, WA MSA)	17,550	12.4%
Clatsop (Astoria MSA)	9,540	8.7%
Columbia (Saint Helens MSA)	9,540	10.8%
Coos (Coquille MSA)	21,180	11.8%
Cowlitz (Kelso, WA MSA)	35,700	11.5%
Deschutes (Bend MSA)	61,520	12.7%
Hood River (Hood River MSA)	10,300	7.6%
Jackson (Medford MSA)	77,000	11.6%
Josephine (Grants Pass MSA)	22,700	12.9%
Klamath (Klamath Falls MSA)	21,790	12.9%
Klickitat (Goldendale, WA MSA)	5,580	8.9%
Lane (Eugene/Springfield MSA)	137,700	9.6%
Lincoln (Newport MSA)	17,860	10.3%
Linn (Albany MSA)	38,220	12.0%
Marion (Salem MSA)	142,581	10.7%
Multnomah (Portland MSA)	429,600	8.9%
Polk (Dallas MSA)	36,928	8.9%
Skamania (Stevenson, WA MSA)	2,220	10.4%
Tillamook (Tillamook MSA)	8,600	9.0%
Wasco (The Dalles MSA)	9,620	8.4%
Washington (Hillsboro MSA)	238,300	7.8%
Yamhill (McMinnville MSA)	29,320	9.3%

Seasonally Adjusted

UNEMPLOYMENT RATE COMPARISON

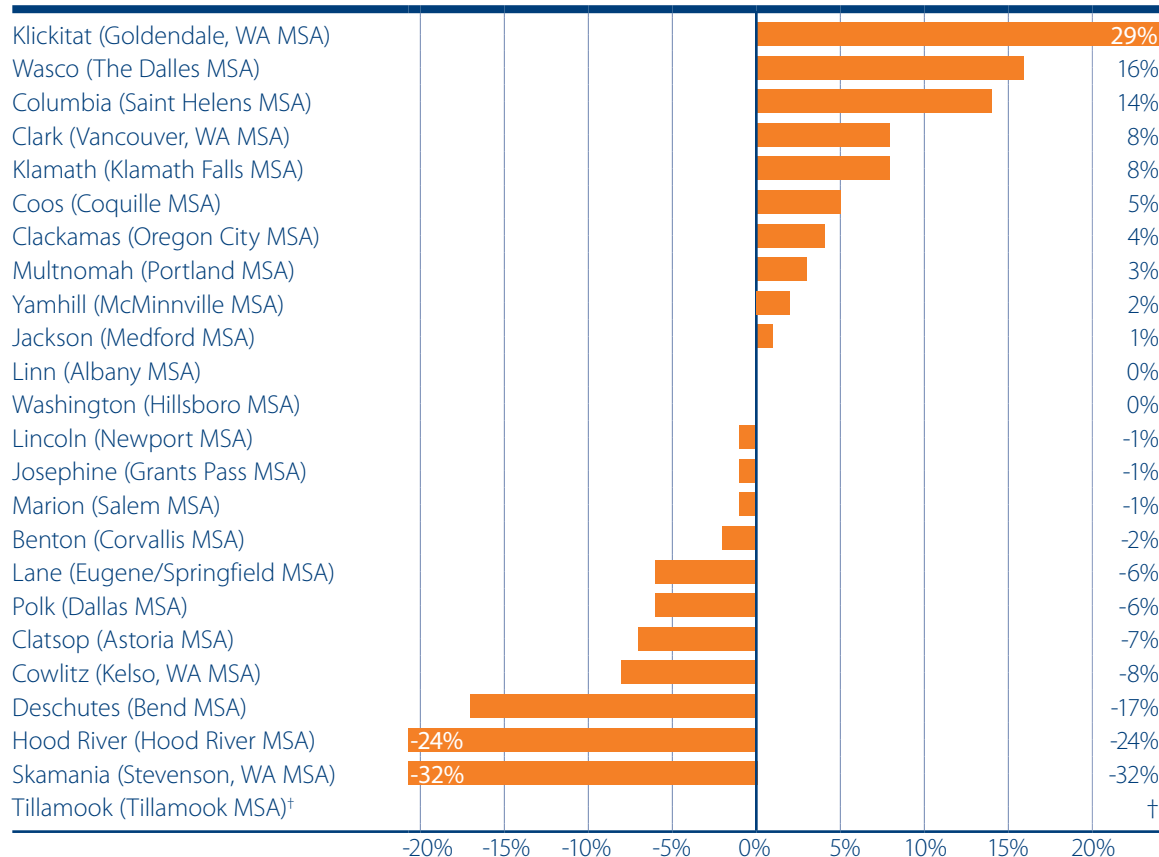


REGIONAL REAL ESTATE

In aggregate, sales transactions through the third quarter of this year are up by a marginal one percent over the same period in 2010. Our comparison to the tax incentivized market of last spring is dissipating and the numbers are not very surprising. When compared to the year-to-date figures shown in 2010, we note that 10 counties saw an increase in transactions, 11 did not meet last year's figures, and two were identical to last year.

At face value, the above statement can be construed as generally positive. It was also pleasing to note that the value of transacted units in our market, although still 9.2 percent lower than a year ago, did also show some bright spots. Looking at the specific counties that were analyzed, there were eight that exhibited price growth from September of 2010—these were led by Polk (13.7%), Marion (11.3%), and Coos (10.1%) Counties. Counties that saw the greatest price declines were Skamania (-49.7%), Klickitat (-40%), Lincoln (-20%), Hood River (-18%), and Klamath (-17.2%) Counties.

PERCENT CHANGE IN YTD CLOSED SALES



CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY HOME & CONDO

County (MSA)	YTD Sept 10	YTD Sept 11	County (MSA)	YTD Sept 10	YTD Sept 11	County (MSA)	YTD Sept 10	YTD Sept 11
Benton (Corvallis MSA)	457	447	Hood River (Hood River MSA)	98	74	Marion (Salem MSA)	341	336
Clackamas (Oregon City MSA)	2,410	2,501	Jackson (Medford MSA)	1,995	2,017	Multnomah (Portland MSA)	5,285	5,440
Clark (Vancouver, WA MSA)	2,814	3,042	Josephine (Grants Pass MSA)	669	661	Polk (Dallas MSA)	187	176
Clatsop (Astoria MSA)	237	220	Klamath (Klamath Falls MSA)	384	414	Skamania (Stevenson, WA MSA)	62	42
Columbia (Saint Helens MSA)	257	294	Klickitat (Goldendale, WA MSA)	55	71	Tillamook (Tillamook MSA)	†	†
Coos (Coquille MSA)	297	311	Lane (Eugene/Springfield MSA)	2,019	1,906	Wasco (The Dalles MSA)	100	116
Cowlitz (Kelso, WA MSA)	253	232	Lincoln (Newport MSA)	2,064	2,052	Washington (Hillsboro MSA)	3,327	3,316
Deschutes (Bend MSA)	277	230	Linn (Albany MSA)	632	630	Yamhill (McMinnville MSA)	489	500

† Data was not available at the time of publication.

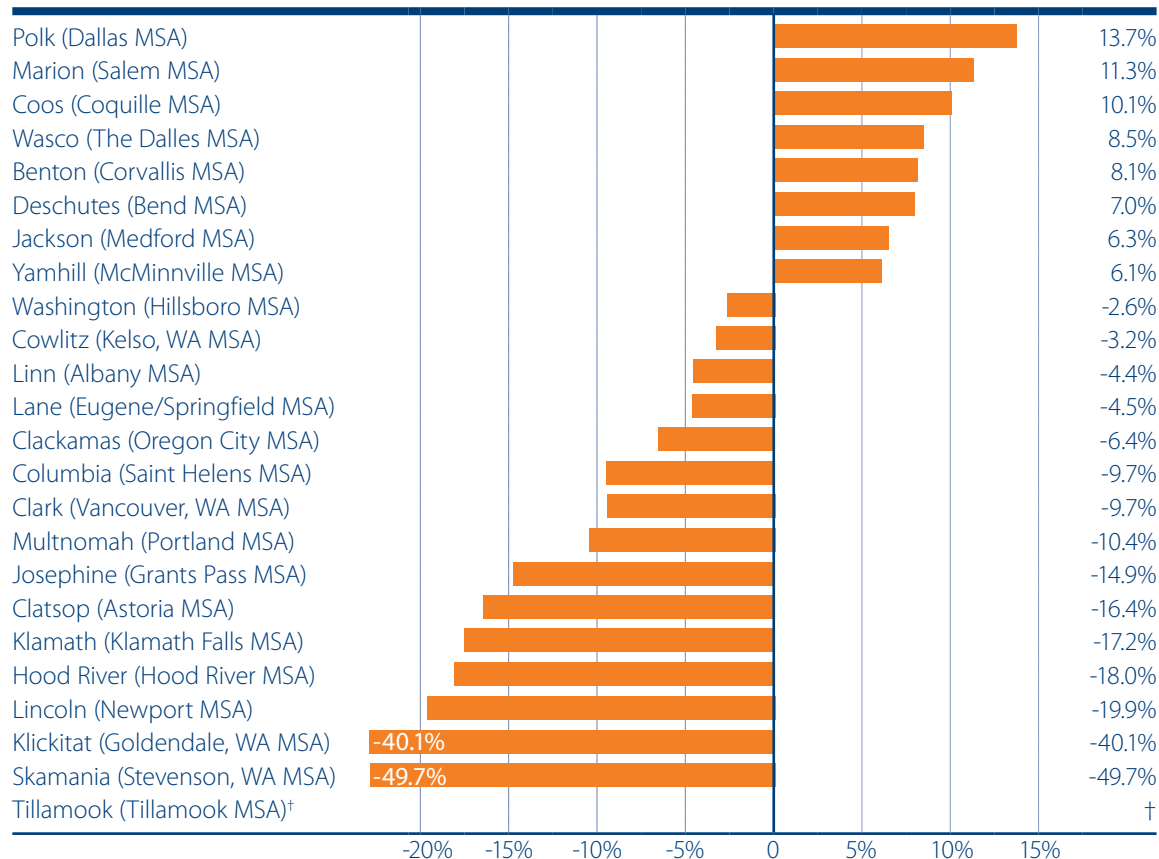
REGIONAL REAL ESTATE

As it is still a little unfair to look at year-over-year prices due to the tax rebate that was still affecting prices in 2010, I turn my attentions to changes over the past quarter and see a different picture. From June to September, 14 counties experienced positive price growth between the second and third quarters.

Transactional velocity appears to be steady, but prices are still, in aggregate, down. The data that I've been reviewing shows that the percentage of distressed transactions is still high and this 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 "D" this quarter.

HOME PRICE GROWTH RATE



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

County (MSA)	Growth Rate	Net Growth (\$000's)	County (MSA)	Growth Rate	Net Growth (\$000's)	County (MSA)	Growth Rate	Net Growth (\$000's)
Benton (Corvallis MSA)	8.1%	19.1	Hood River (Hood River MSA)	-18.0%	-59.0	Marion (Salem MSA)	11.3%	18.3
Clackamas (Oregon City MSA)	-6.4%	-20.0	Jackson (Medford MSA)	6.3%	13.3	Multnomah (Portland MSA)	-10.4%	-30.0
Clark (Vancouver, WA MSA)	-9.7%	-23.0	Josephine (Grants Pass MSA)	-14.9%	-33.3	Polk (Dallas MSA)	13.7%	21.7
Clatsop (Astoria MSA)	-16.4%	-53.0	Klamath (Klamath Falls MSA)	-17.2%	-26.2	Skamania (Stevenson, WA MSA)	-49.7%	-191.0
Columbia (Saint Helens MSA)	-9.7%	-18.0	Klickitat (Goldendale, WA MSA)	-40.1%	-69.0	Tillamook (Tillamook MSA)	†	†
Coos (Coquille MSA)	10.1%	15.0	Lane (Eugene/Springfield MSA)	-4.5%	-10.0	Wasco (The Dalles MSA)	8.5%	12.0
Cowlitz (Kelso, WA MSA)	-3.2%	-6.0	Lincoln (Newport MSA)	-19.9%	-54.3	Washington (Hillsboro MSA)	-2.6%	-7.0
Deschutes (Bend MSA)	7.0%	14.7	Linn (Albany MSA)	-4.4%	-6.9	Yamhill (McMinnville MSA)	6.1%	14.0

Average \$'s

† Data was not available at the time of publication.

REGIONAL REAL ESTATE

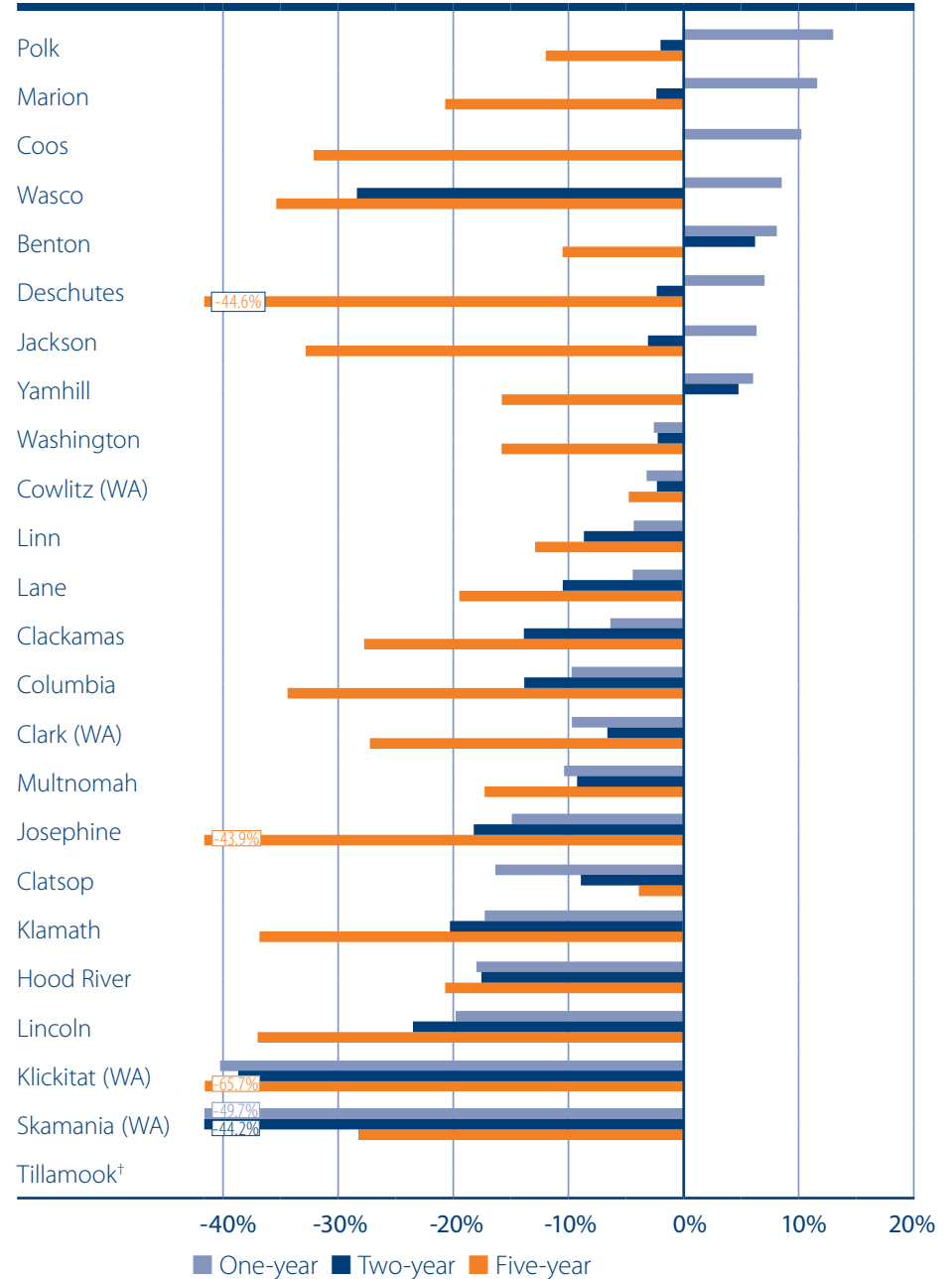
RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS

County	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Benton	\$254,274	5.8%	8.1%	6.3%	-10.5%
Clackamas	\$291,000	-1.0%	-6.4%	-13.9%	-27.8%
Clark (WA)	\$213,000	3.9%	-9.7%	-6.6%	-27.3%
Clatsop	\$270,000	-1.1%	-16.4%	-8.8%	-3.9%
Columbia	\$168,000	2.4%	-9.7%	-13.8%	-34.6%
Coos	\$163,000	1.2%	10.1%	0.0%	-32.1%
Cowlitz (WA)	\$179,000	7.2%	-3.2%	-2.2%	-4.8%
Deschutes	\$225,449	7.3%	7.0%	-2.2%	-44.6%
Hood River	\$268,000	-1.1%	-18.0%	-16.5%	-20.7%
Jackson	\$224,916	12.6%	6.3%	-3.1%	-32.7%
Josephine	\$189,931	5.9%	-14.9%	-18.2%	-43.9%
Klamath	\$125,904	-13.2%	-17.2%	-20.2%	-36.7%
Klickitat (WA)	\$103,000	-62.7%	-40.1%	-38.7%	-65.7%
Lane	\$214,000	-4.5%	-4.5%	-10.5%	-19.5%
Lincoln	\$218,670	7.5%	-19.9%	-23.5%	-37.0%
Linn	\$149,267	10.7%	-4.4%	-8.6%	-12.9%
Marion	\$180,665	10.7%	11.3%	-2.2%	-20.6%
Multnomah	\$258,000	-5.5%	-10.4%	-9.2%	-17.3%
Polk	\$180,021	6.6%	13.7%	-2.7%	-12.4%
Skamania (WA)	\$193,000	-11.1%	-49.7%	-44.2%	-28.3%
Tillamook	†	†	†	†	†
Wasco	\$154,000	-32.8%	8.5%	-28.4%	-35.3%
Washington	\$263,000	2.3%	-2.6%	-2.2%	-15.7%
Yamhill	\$242,000	-4.0%	6.1%	4.8%	-15.7%

* Year over year from most recent month surveyed

† Data was not available at the time of publication.

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 marginal employment growth in Oregon and Southwest Washington, but improvements are certainly not equal. 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 Oregon and Southwest Washington will continue to improve from an employment standpoint, uncertainty appears to have permeated all businesses.

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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