

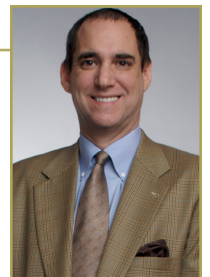
The Gardner Report

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 is the retained economist for the Master Builders Association of King and Snohomish counties. 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

As a nation, this recession has led us to believe that the term “not so bad” really means “good”! We are hearing it from Wall Street to Main Street and, I am afraid to say, it is now my turn to use the well-coined phrase when summing up our regional economy. It could, indeed, be worse.

It is true that, year-over-year, almost all counties incorporated within our study have lost jobs, but the pace of declines appears to be slowing. From the first quarter of 2008 to the first quarter of 2009, our region lost over 57,000 jobs. Second quarter year-over-year, the rate of losses dropped to 43,500.

San Juan and Kittitas counties again saw the only increase in non-agricultural employment and, excluding these, job losses averaged 1.5 percent, versus 2.5 percent during the previous study period.

Those of you that read this tome regularly will remember that I have stated we would see an improving employment situation in the second half of this year. Losses do appear to be slowing, and I am hopeful that my prognostications turn out correctly and we will fare better than most. On this note, I was pleased to see that my friend, Mark Zandi of Economy.com, further enforces this opinion. He undertook an analysis of every state and suggests that Washington will be one of the first to start creating jobs again and that growth here will start to occur in the fourth quarter of this year! A bold prediction and one that I hope is correct.

NON AGRICULTURE EMPLOYMENT SITUATION

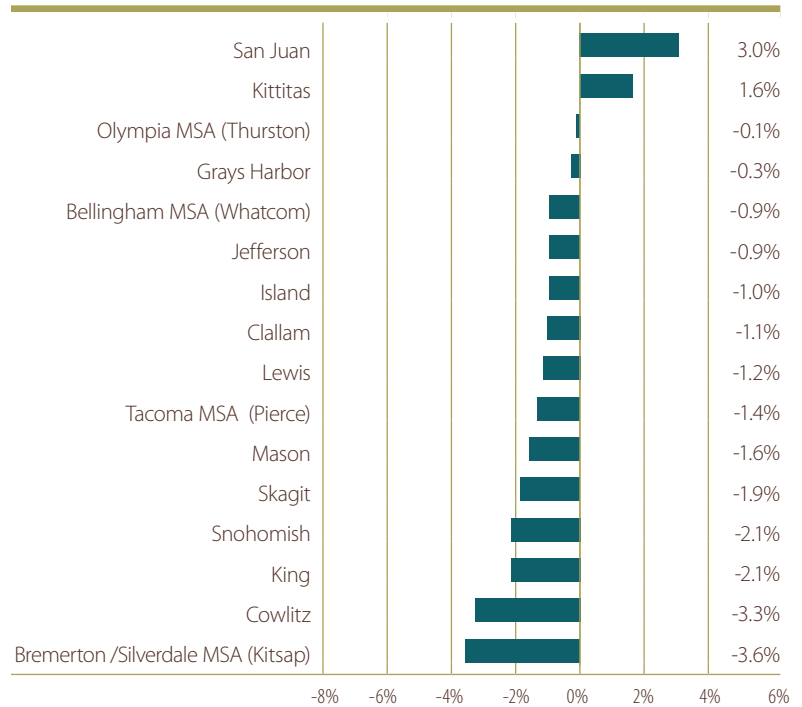
County	Growth June 08 - June 09	Growth Rate
Bellingham MSA (Whatcom)	-930	-0.9%
Bremerton/Silverdale MSA (Kitsap)	-4,200	-3.6%
Clallam	-300	-1.1%
Cowlitz	-1,330	-3.3%
Grays Harbor	-100	-0.3%
Island	-320	-1.0%
Jefferson	-120	-0.9%
King	-22,320	-2.1%
Kittitas	330	1.6%
Lewis	-350	-1.2%
Mason	-380	-1.6%
Olympia MSA (Thurston)	-110	-0.1%
San Juan	270	3.0%
Skagit	-1,080	-1.9%
Snohomish	-7,570	-2.1%
Tacoma MSA (Pierce)	-5,030	-1.4%

Not Seasonally Adjusted

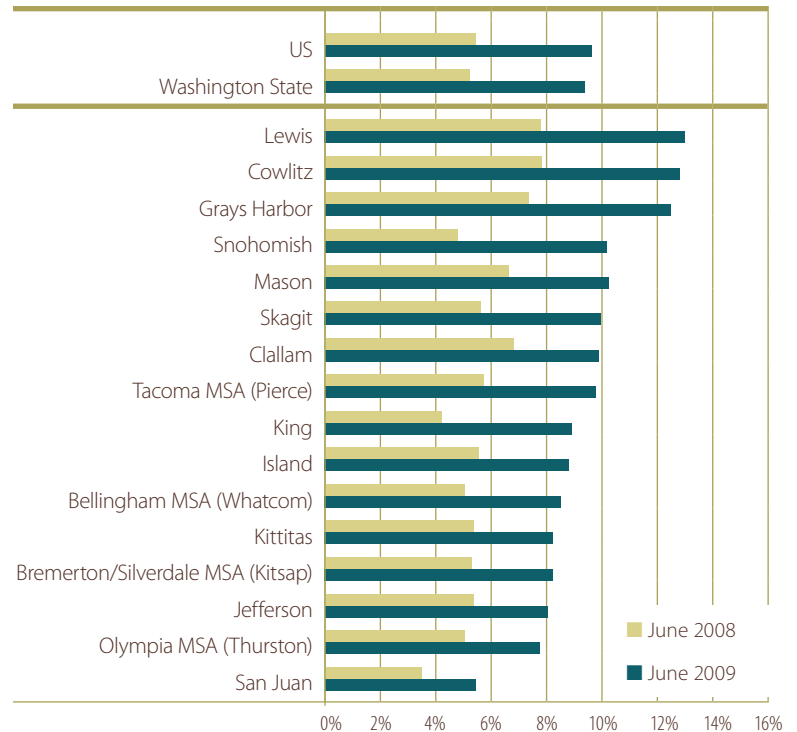
UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Bellingham MSA (Whatcom)	102,230	8.4%
Bremerton/Silverdale MSA (Kitsap)	113,460	8.1%
Clallam	27,850	9.8%
Cowlitz	39,110	12.7%
Grays Harbor	29,110	12.4%
Island	31,150	8.7%
Jefferson	13,020	8.0%
King	1,021,080	8.8%
Kittitas	20,880	8.1%
Lewis	28,680	12.8%
Mason	23,130	10.1%
Olympia MSA (Thurston)	124,240	7.7%
San Juan	9,300	5.4%
Skagit	54,360	9.9%
Snohomish	346,360	10.1%
Tacoma MSA (Pierce)	363,780	9.7%

PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

Overall transactions of resale product totaled 12,341 units in the second quarter, a very impressive increase of 57 percent over the previous quarter, but a decline of 25 percent when compared to the first half of 2008.

This report has not previously looked at pending transactions as a method of gauging our market, and I thought that it would be interesting to review these figures and compare them to those of a year ago.

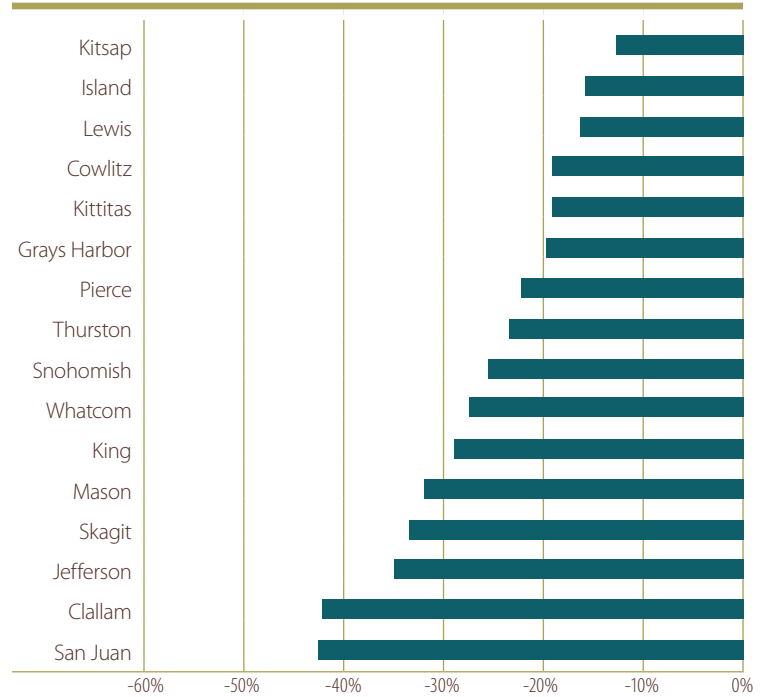
In June of 2009, there were 7,419 sales that were listed as pending; this compares to 6,090 in June of 2008, a 22 percent increase. The trend of growth was pretty clear across the board with only four counties showing declines and these were in smaller markets of Grays Harbor, Kittitas, Whatcom and Jefferson counties.

Pending sales exploded in Kitsap County (56%), Mason (41%), Skagit (38%), Cowlitz (31%) and Snohomish (30%). Our other two large markets, King and Pierce, saw transactions increase by 19 and 30 percent, respectively. In aggregate, pending sales have been on the rise since January and I hope that this is a pattern that will continue through the summer months. We would note that the way that pending sales has been measured historically

CLOSED SALES ACTIVITY EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date June 09	Year-to-Date June 08
King	7,963	11,204
Snohomish	3,164	4,235
Pierce	3,488	4,421
Kitsap	1,129	1,288
Mason	219	323
Skagit	438	652
Grays Harbor	288	356
Lewis	230	277
Cowlitz	292	355
Thurston	1,260	1,614
San Juan	37	64
Island	380	455
Kittitas	161	196
Jefferson	101	153
Whatcom	945	1,296
Clallam	108	186

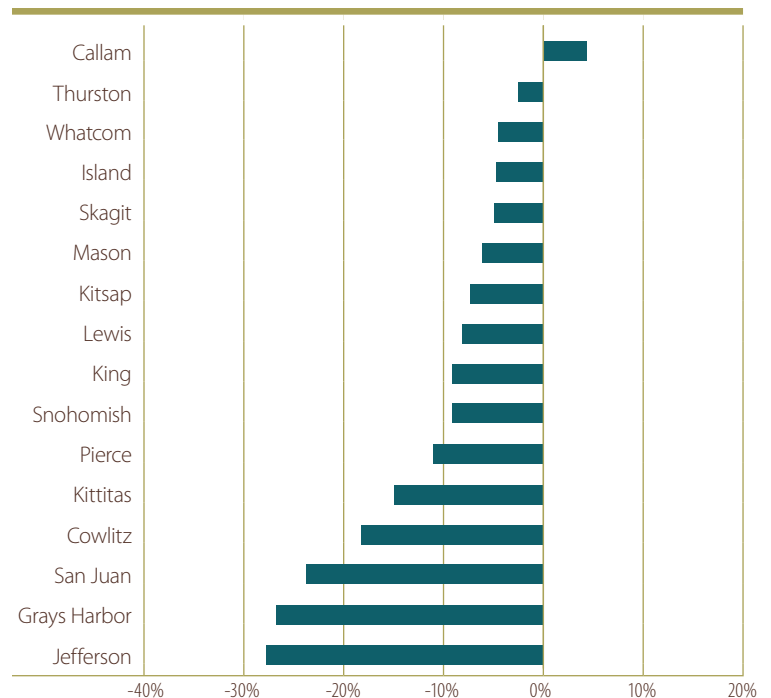
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate June-June	Net Growth (in thousands of dollars)
King	-9.2%	-36.9
Snohomish	-9.2%	-30.5
Pierce	-11.3%	-29.3
Kitsap	-8.2%	-22.1
Mason	-7.2%	-14.0
Skagit	-5.4%	-14.0
Grays Harbor	-26.8%	-43.2
Lewis	-8.7%	-15.7
Cowlitz	-18.2%	-35.5
Thurston	-2.8%	-7.0
San Juan	-24.2%	-121.3
Island	-5.2%	-14.2
Kittitas	-15.4%	-41.0
Jefferson	-27.3%	-79.0
Whatcom	-5.0%	-14.0
Clallam	3.8%	10.0

HOME PRICE GROWTH RATE



Median Prices

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REGIONAL REAL ESTATE CONTINUED

may be misleading, as distressed units take longer to close. This measurement is going to be changing next month and we will report any significant adjustments in our next report.

As I have previously stated, a recovery in our housing market will be predicated on a reduction in overall inventory levels. I continue to be pleased by the inventory reductions that I am seeing across most of our markets. Kitsap County's available inventory declined by 28 percent over the same month in 2008, and in total 12 counties saw reductions in inventories. The only large increase was found in San Juan County, where we may assume that second homes are a large component. There were minor increases in inventory levels in Jefferson, Clallam and Skagit counties, however these additions measured just 4 percent in Jefferson and 1 percent in the other two counties.

Value of our real estate is another area where, although the news is hardly great, we note that the rate of decline is also slowing. Another situation where we are thinking that it's not so bad!

There were some high points, though, such as Mason County, where the annualized price decline went from -33 to -7.2 percent. Over half of the markets surveyed saw improvement in their year-over-year declines. Clallam County was the only market that saw an improvement in its year-over-year values, which increased by 3.8 percent. There were some troubling areas, however, with Grays Harbor County moving from -2.5 percent to -27 percent.

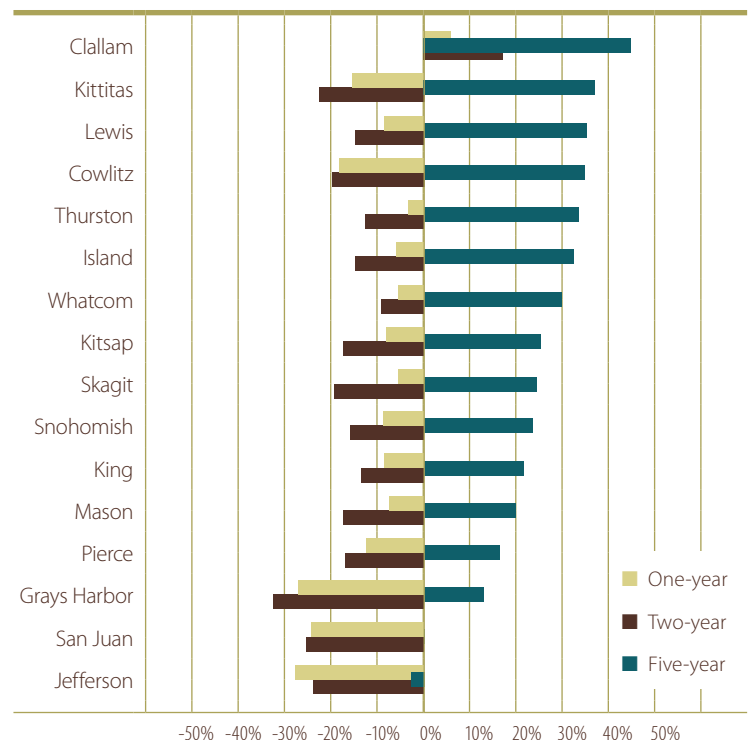
If we look at this quarter, we see that half of the areas surveyed showed price improvement over the first quarter of this year; a tangible sign of stability.

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	\$363,116	8.4%	-9.2%	-12.5%	21.4%
Snohomish	\$299,000	-2.0%	-9.2%	-15.8%	23.5%
Pierce	\$230,000	0.7%	-11.3%	-17.1%	15.8%
Kitsap	\$247,900	0.6%	-8.2%	-18.3%	24.4%
Mason	\$180,000	38.5%	-7.2%	-18.2%	20.0%
Skagit	\$246,000	2.5%	-5.4%	-19.0%	23.6%
Grays Harbor	\$117,750	-17.2%	-26.8%	-30.7%	12.9%
Lewis	\$164,300	-1.0%	-8.7%	-15.7%	35.8%
Cowlitz	\$159,500	-11.4%	-18.2%	-19.9%	34.6%
Thurston	\$239,975	0.0%	-2.8%	-11.8%	33.7%
San Juan	\$380,000	-67.3%	-24.2%	-25.0%	0.0%
Island	\$260,800	4.9%	-5.2%	-15.6%	30.7%
Kittitas	\$225,000	8.9%	-15.4%	-20.6%	36.4%
Jefferson	\$210,000	-12.0%	-27.3%	-24.3%	-1.9%
Whatcom	\$265,000	3.1%	-5.0%	-8.5%	29.9%
Clallam	\$270,000	22.7%	3.8%	16.4%	45.2%

* Year over year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

All real estate is, indeed, local; however it is important to keep a close eye on national trends. I was very happy to see that June's numbers for existing home sales rose for the third month in a row to a seasonally adjusted rate of 4.78M units. This is the first time that we have seen a three month increase in transactional velocities since early 2004, and it does provide some support to the notion that the market may be finding its footing. The inventory of existing homes for sale also fell to 3.2M in June.

I think that it is important to remember that the housing market has been retracting for almost four years now. There are still too many homes for sale – and many of them in distress – but I continue to see data that, if not pointing up, is not pointing down either!

Relative to pricing of U.S. houses, the median price came in 15.4 percent below that of a year ago; however, it is 4.1 percent above May's figure and it is the third consecutive monthly rise in price. If we look at average prices, we are down year over year by 11.8 percent but up again on a monthly basis by 4.2 percent.

I would conclude this piece with some thoughts on how all of the above data fits together. Although it is true that we continue to see stability starting to return to our real estate market, much of this has been driven by the Federal tax credit – set to expire in November. It is my hope, and the hope of many in the other Washington, that this credit is extended not only in duration, but also for it to be open to all buyers, not just first-time buyers. If this is the case, and if we are able to keep interest rates at around five percent, we will continue to see improvements in the local as well as U.S. housing markets.