

PREPARED EXCLUSIVELY FOR
WINDERMERE REAL ESTATE

THE GARDNER REPORT

Windermere Real Estate is delighted to be partnered with Gardner Economics to provide analysis and commentary on the Oregon 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 may contain 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.

MACRO & REGIONAL ECONOMICS

Recently, I have been feeling a little like Bill Murray's character from the movie "Groundhog Day." I say this because the tone of my commentary has become very repetitive over the past year with use of terms such as "slowly improving" or "little change."

Having now reviewed Oregon State's employment data for the whole of 2010, it appears as if I will have to continue use of these terms for a little longer! Slow improvement is still being seen and we are not hemorrhaging quite as many jobs as in 2008 and 2009, but the improvement is very geographically selective, and at very modest rates.

When we look at the unemployment rate, 7 of the counties analyzed saw improving unemployment rates while 16 areas experienced increasing unemployment.

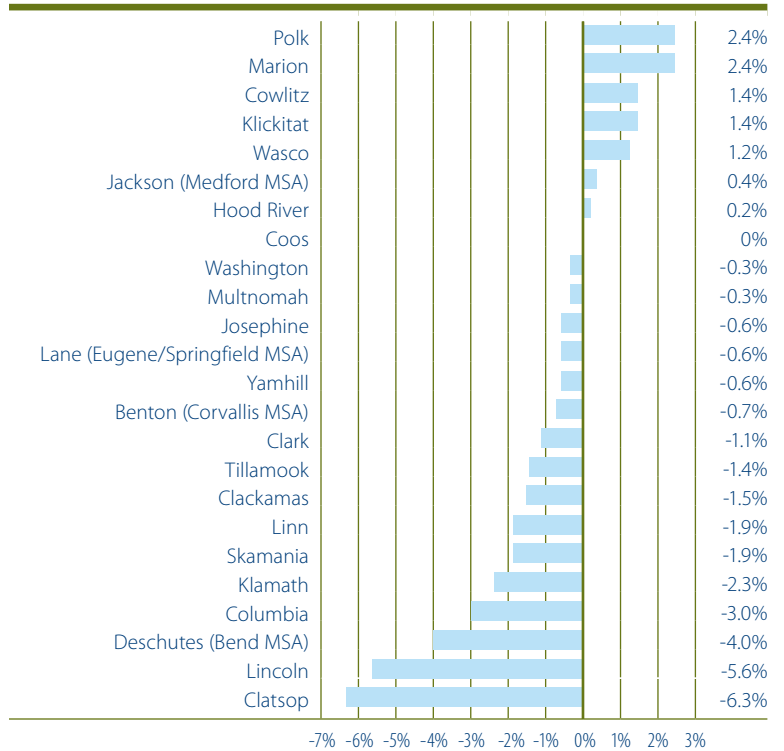
Marion County saw the highest increase in overall employment with the addition of 3,294 positions, and the greatest losses were found in the Bend metropolitan area, where employment declined by 2,420 positions. On a percentage basis, the greatest increases in employment were found in Polk and Marion counties (+2.4 percent) and the greatest decline was found in Clatsop County, where employment declined by 6.3 percent.

NON AGRICULTURE EMPLOYMENT SITUATION

County	Growth Dec 09 - Dec 10	Growth Rate
Benton (Corvallis MSA)	-260	-0.7%
Clackamas	-2,000	-1.5%
Clark	-1,400	-1.1%
Clatsop	-1,060	-6.3%
Columbia	-290	-3.0%
Coos	-10	-0.0%
Cowlitz	500	1.4%
Deschutes (Bend MSA)	-2,420	-4.0%
Hood River	20	0.2%
Jackson (Medford MSA)	280	0.4%
Josephine	-130	-0.6%
Klamath	-510	-2.3%
Klickitat	200	1.4%
Lane (Eugene/Springfield MSA)	-900	-0.6%
Lincoln	-990	-5.6%
Linn	-730	-1.9%
Marion	3,294	2.4%
Multnomah	-1,200	-0.3%
Polk	851	2.4%
Skamania	-40	-1.9%
Tillamook	-120	-1.4%
Wasco	110	1.2%
Washington	-600	-0.3%
Yamhill	-190	-0.6%

Not Seasonally Adjusted

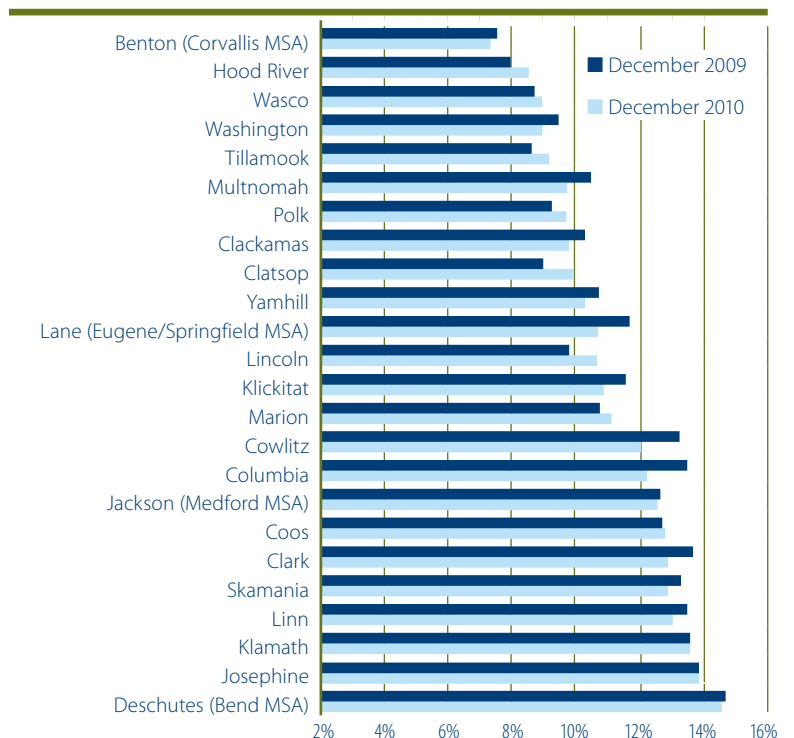
PERCENT CHANGE IN ANNUAL EMPLOYMENT



UNEMPLOYMENT RATE COMPARISON

Metropolitan Area	Employment	Unemployment Rate
Benton (Corvallis MSA)	36,550	7.3%
Clackamas	134,300	9.9%
Clark	126,200	12.9%
Clatsop	15,730	10.0%
Columbia	9,500	12.2%
Coos	21,010	12.8%
Cowlitz	36,200	12.0%
Deschutes (Bend MSA)	58,750	14.5%
Hood River	10,520	8.6%
Jackson (Medford MSA)	77,150	12.5%
Josephine	22,710	13.9%
Klamath	21,360	13.5%
Klickitat	14,830	10.9%
Lane (Eugene/Springfield MSA)	142,200	10.8%
Lincoln	16,660	10.8%
Linn	38,190	13.0%
Marion	140,097	11.1%
Multnomah	425,300	9.8%
Polk	36,181	9.8%
Skamania	2,040	12.9%
Tillamook	8,280	9.2%
Wasco	9,410	9.0%
Washington	230,100	9.0%
Yamhill	29,810	10.3%

UNEMPLOYMENT RATE COMPARISON



REGIONAL REAL ESTATE

In 2010, our market area saw 34,205 transactions—an increase of two percent over 2009. Growth slowed dramatically in the fourth quarter, but I have to say that I am heartened to see that we appear to be seeing some glimmers of stability in the region relative to sales transactions. Year-over-year, almost 80 percent of counties saw improving sales velocities, with Skamania County registering a very impressive 40 percent increase (this should be tempered with the fact that the increase was from 50 to 70 sales). Declines were greatest in Polk County where, year-over-year, transactions were down by 18 percent.

When we look at home price growth in 2010 over 2009, we continue to see more counties in the positive column than the negative one, and it is my anticipation that this will continue to show improvement in 2011, especially in areas where foreclosure activity is not prevalent.

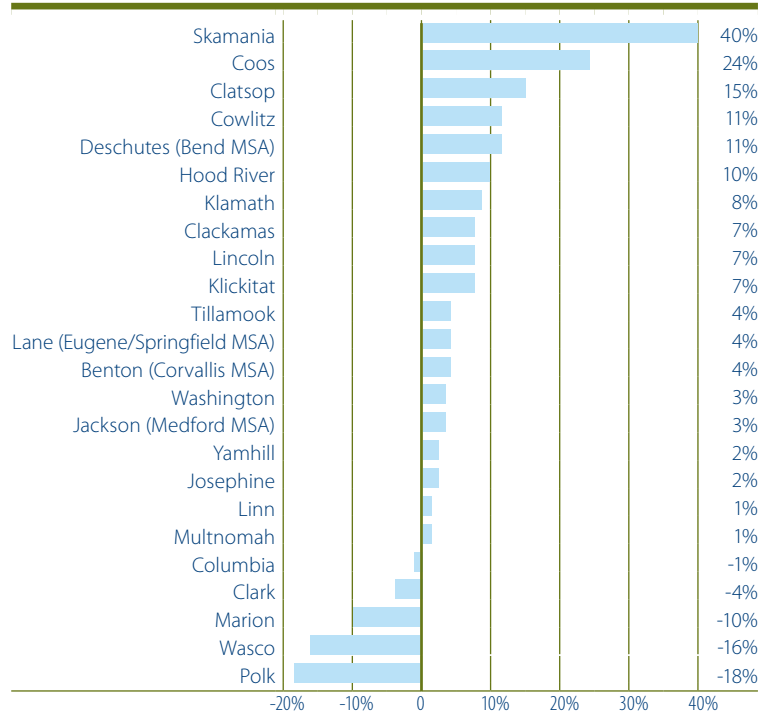
The greatest rate of house price appreciation was found in the very volatile Skamania County, where prices were up by over 46 percent from December 2009. This was followed by Hood River (+38.7%), Klamath (+36.7%), and Yamhill (+30.8%) counties. Prices declined the greatest in Tillamook (-28.6%), followed by Deschutes (-21.5%), Coos and Josephine counties (-21.1%).

Over time, we note that 8 of 24 counties in our region show positive price growth over the third quarter of 2010, and 8 are also higher than a year ago. Year-over-year, prices across the region have declined by 2.1 percent.

CLOSED SALES EXISTING SINGLE-FAMILY & CONDO

County	Year-to-Date December 2010	Year-to-Date December 2009
Benton (Corvallis MSA)	582	561
Clackamas	3,130	2,915
Clark	3,586	3,737
Clatsop	363	315
Columbia	343	346
Coos	415	335
Cowlitz	323	291
Deschutes (Bend MSA)	2,839	2,569
Hood River	133	121
Jackson (Medford MSA)	2,389	2,328
Josephine	811	793
Klamath	595	552
Klickitat	63	59
Lane (Eugene/Springfield MSA)	2,630	2,535
Lincoln	607	568
Linn	820	811
Marion	1,939	2,151
Multnomah	6,871	6,831
Polk	503	612
Skamania	70	50
Tillamook	189	182
Wasco	129	153
Washington	4,274	4,132
Yamhill	601	587

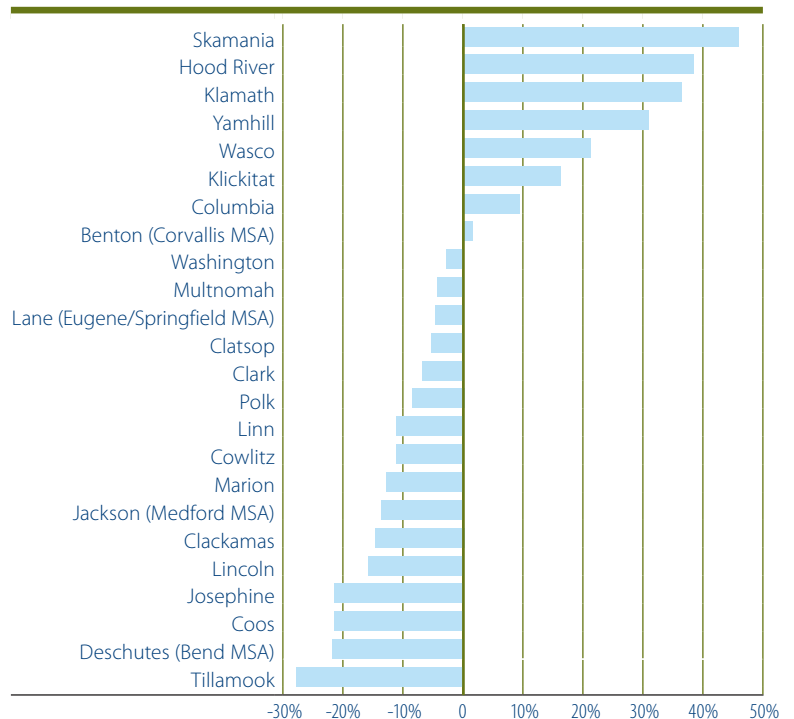
PERCENT CHANGE IN YTD CLOSED SALES



SALES PRICE SINGLE-FAMILY & CONDO

Metropolitan Area	Growth Rate Dec 09 - Dec 10	Net Growth (in thousands of dollars)
Benton (Corvallis MSA)	0.7%	1.7
Clackamas	-14.3%	-49.0
Clark	-7.1%	-17.0
Clatsop	-6.4%	-18.3
Columbia	9.9%	16.0
Coos	-21.1%	-38.0
Cowlitz	-11.3%	-21.0
Deschutes (Bend MSA)	-21.5%	-53.1
Hood River	38.7%	94.0
Jackson (Medford MSA)	-13.4%	-29.6
Josephine	-21.1%	-47.6
Klamath	36.7%	47.0
Klickitat	16.7%	25.0
Lane (Eugene/Springfield MSA)	-5.0%	-11.0
Lincoln	-15.3%	-48.1
Linn	-11.3%	-16.9
Marion	-12.4%	-22.1
Multnomah	-4.2%	-12.0
Polk	-9.8%	-20.4
Skamania	46.6%	108.0
Tillamook	-28.6%	-79.8
Wasco	21.4%	27.0
Washington	-3.3%	-9.0
Yamhill	30.8%	62.0

HOME PRICE GROWTH RATE



Median Prices

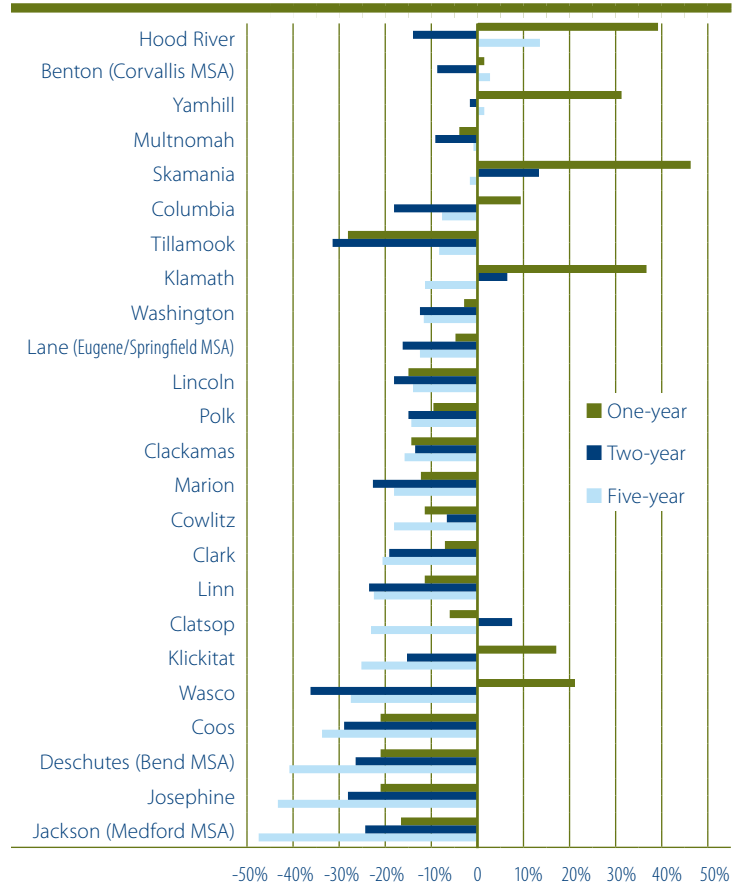
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RELATIVE EXISTING SINGLE-FAMILY HOME PRICE TRENDS
(MAJOR OREGON COUNTIES)

Metropolitan Area	Median Price	Home Price Escalation			
		Quarter	1 Year*	2 Year*	5 Year*
Benton (Corvallis MSA)	\$254,755	8.3%	0.7%	-9.2%	2.2%
Clackamas	\$293,000	-5.8%	-14.3%	-13.3%	-15.6%
Clark	\$222,000	-5.9%	-7.1%	-19.3%	-20.4%
Clatsop	\$266,300	-9.5%	-6.4%	7.8%	-23.3%
Columbia	\$177,000	-4.8%	9.9%	-18.8%	-8.8%
Coos	\$142,000	-4.1%	-21.1%	-29.7%	-34.3%
Cowlitz	\$165,000	-10.8%	-11.3%	-6.3%	-18.7%
Deschutes (Bend MSA)	\$194,348	-7.8%	-21.5%	-26.3%	-40.4%
Hood River	\$337,000	3.1%	38.7%	-14.0%	13.5%
Jackson (Medford MSA)	\$190,333	-10.1%	-16.1%	-24.2%	-46.3%
Josephine	\$178,095	-20.2%	-21.1%	-28.3%	-43.5%
Klamath	\$175,025	19.1%	36.7%	6.3%	-11.4%
Klickitat	\$175,000	1.7%	16.7%	-15.0%	-25.2%
Lane (Eugene/Springfield MSA)	\$211,000	-5.8%	-5.0%	-15.9%	-12.4%
Lincoln	\$266,462	-3.9%	-15.3%	-18.5%	-14.0%
Linn	\$132,432	-15.6%	-11.3%	-23.9%	-22.6%
Marion	\$156,469	-6.6%	-12.4%	-22.6%	-18.3%
Multnomah	\$277,000	-3.8%	-4.2%	-9.8%	-0.7%
Polk	\$187,466	2.4%	-9.8%	-14.6%	-14.4%
Skamania	\$340,000	-11.5%	46.6%	13.7%	-1.4%
Tillamook	\$199,200	-12.6%	-28.6%	-31.1%	-8.8%
Wasco	\$153,000	7.7%	21.4%	-36.8%	-28.8%
Washington	\$266,000	-1.5%	-3.3%	-12.8%	-11.9%
Yamhill	\$263,000	15.4%	30.8%	-1.1%	1.2%

* Year-over-year from most recent month surveyed

MEDIAN HOME PRICE ESCALATION RATE



CONCLUSIONS

I suggested in last quarter's report that the Federal Reserve was certain to inject further money into the economy through bond purchases and that this would assist with interest rates. They duly obliged, however rates have not taken the downturn that many, including myself, had anticipated. Surprisingly enough, this is due to improving economic conditions. It is now my contention that we will not revisit the lows in mortgage rates that were seen in 2010, but neither will we see dramatic increases in rates this year. That said, I now believe that rates will slowly increase through 2011 and that may give additional impetus for buyers of real estate to proceed with purchases.

The region still appears to be in somewhat of a state of flux relative to its employment and real estate situations. Employment is showing very marginal improvement, but regional home prices are not yet showing the stability that I would like to see. I anticipate that businesses will start—or continue—hiring in 2011 and that this will positively impact the residential real estate markets in our region, but improvements will be nominal. From a home value perspective, we are being held back by distressed transactions that continue to negatively impact values. As these work through the system, we should see some further improvements this year, and I anticipate that overall numbers of sales transactions will continue to improve in 2011.

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; sits as a trustee for the Washington State Center for Real Estate Research; the Urban Land Institute's 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. Mr. Gardner is also available for speaking engagements. Please call 206.442.9200 or email ge.admin@gardnereconomics.com for more information.

