


Windermere Report

2009

A white line graphic that forms the outline of a house's roof and chimney. The line starts at the bottom left, goes up to the peak, then down to the chimney, then up to the roofline, and finally horizontal to the right.

A snapshot analysis of the residential real estate market in Kitsap County.

Windermere Report

2009

Welcome to the Windermere Report, our historical report of the average price, interest rate, affordability index, net in migration, number of new construction permits and month's supply in residential units.

Affordability in Kitsap County has been on the rise; however, it appears to have plateaued due to current wage stagnation. In as much as we have seen price declines in our county, without wage growth we will likely not see an increase in housing affordability in the near future. It does remain, however, one of the most affordable housing markets in the central Puget Sound area.

Interest rates have been on the decline as a function of the Federal Reserve buying mortgage-backed securities. With government purchases scheduled to end this spring, we expect that the 50-year low interest rates that have prevailed in 2009 will start to increase this year and will likely test the six percent mark by the end of 2010.

Average sales prices have declined from their peak and have probably hit bottom, a trend we'll track carefully through 2010. We are watching to see what effect the expiration of the Homebuyer Tax Credit will have on our market. We anticipate that prices will remain within a fairly tight range for the first half of the year, but remain cautious about the potential effect of foreclosures entering the market later this year.

Permits for single-family homes have declined dramatically, and we see this as a positive trend as it allows for absorption of existing units at a time when we are not creating new jobs. It is possible that this number will deteriorate further in 2010 as builders continue to find financing problematic.

Months of supply show that we are getting closer to a normalized market. Inventory levels have yet to decline and this will weigh on the index unless we see improving sales velocities.

Finally, we look at migration patterns; important indicators of housing market stability. We continue to see more residents moving into our county, which will assist us in stabilizing the residential real estate market. It is one of the few counties that has seen an increase in 2008 over 2007.

Sincerely,

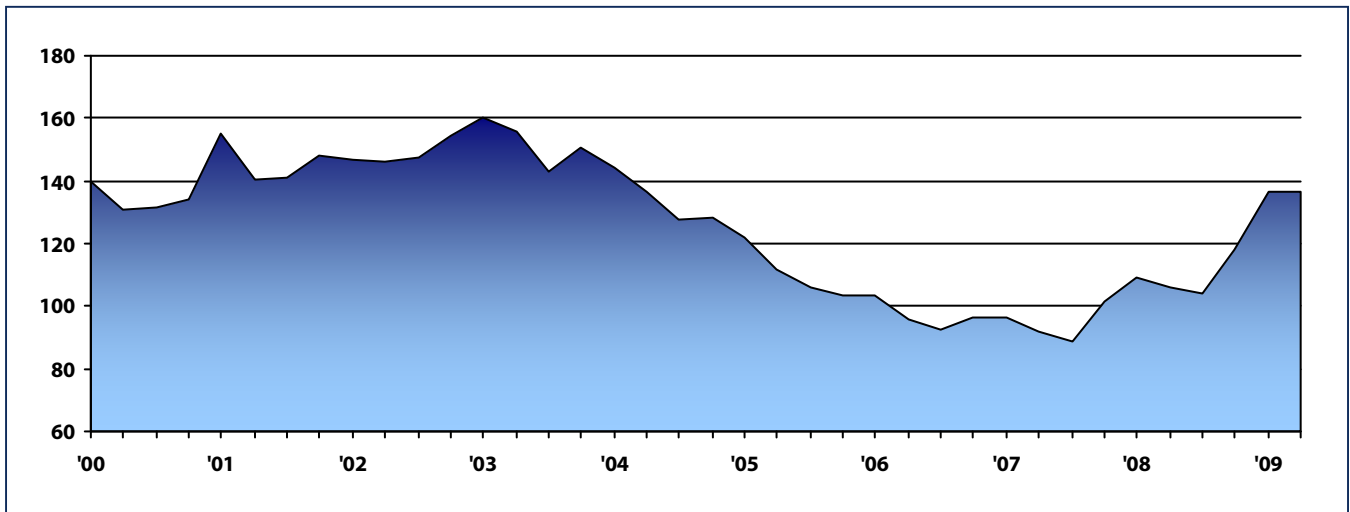
Windermere Real Estate

Kitsap County Market Trends

Housing affordability rose last year, but if we see wage stagnation in concert with increasing interest rates, this will likely weigh on this index. Interest rates will trend upward from the historic lows seen in 2009 and we would not be surprised to see a full percentage point increase by this time next year. Average prices have declined precipitously; however, we are seeing stability in transactional prices and this bodes well for 2010 unless foreclosed units add too much to inventory.

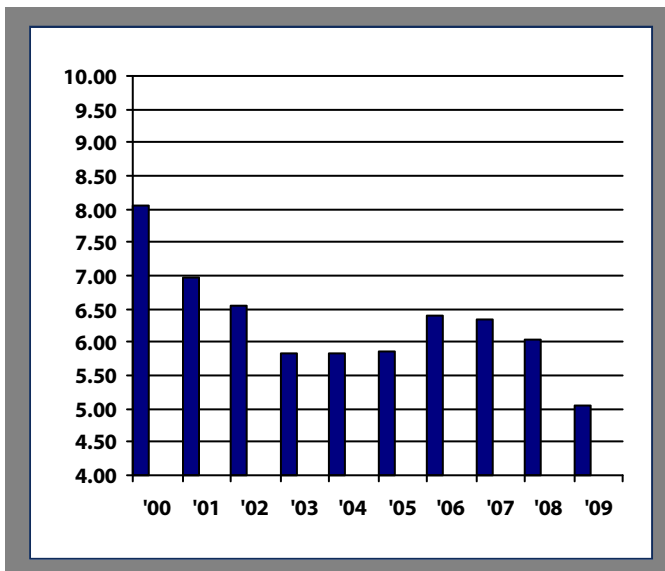
Affordability Index

Housing Affordability Index measures the ability of a middle income family to carry the mortgage payments on a median price home. When the index is 100, there is a balance between the family's ability to pay and the cost. All loans are assumed to be 30 year loans; All buyer index assumes 20% down payment. Chart reflects data from first quarter 2000 through second quarter 2009. Data Source: Washington Center for Real Estate Research



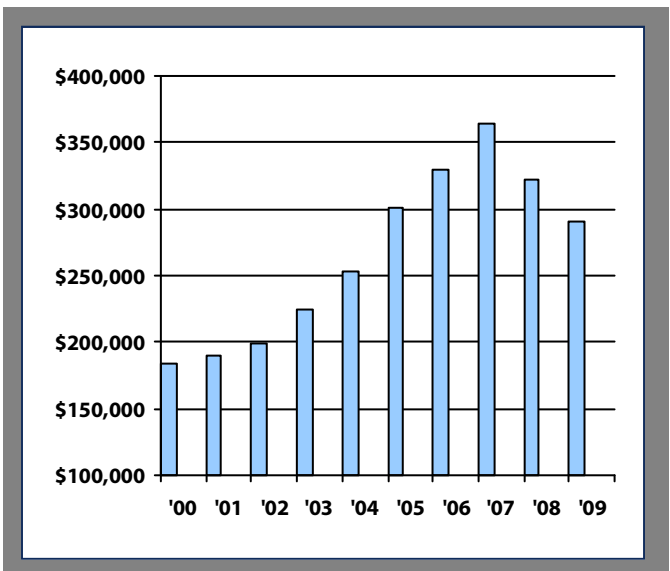
Interest Rate History

Interest rate data represents month-end interest rates for 30-year fixed rate conforming loans. Data Source: Freddie Mac



Average Price History

Average prices are a combination of single-family and multi-family year-to-date sales prices. In 2009, values were down by 9.9% over 2008 and 20.3% lower than the peak year of 2007. Data Source: NWMLS

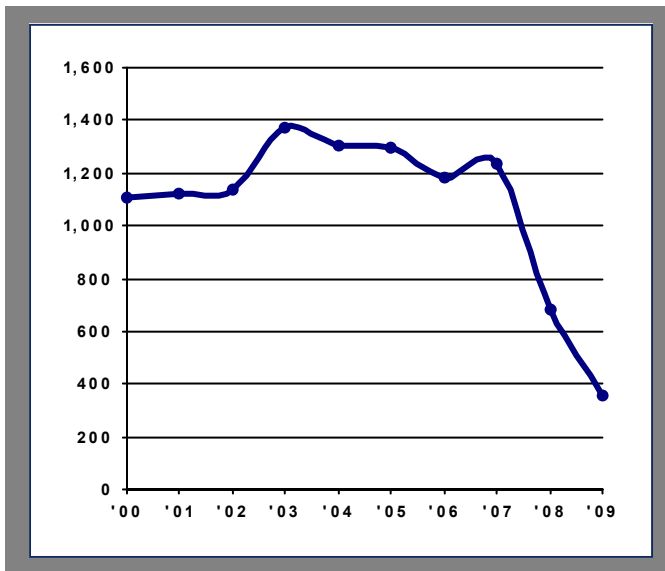


Kitsap County Market Trends

Permits will likely not see a substantial increase in 2010 as builders work their way through current lot inventory. Months of supply of housing has trended upward, but we are cautious that the potential addition of distressed units to the market in 2010 will raise this figure further. Migration to the county was solid in 2008, but it will be interesting to see the level of new in-migration in 2009 and whether this has declined.

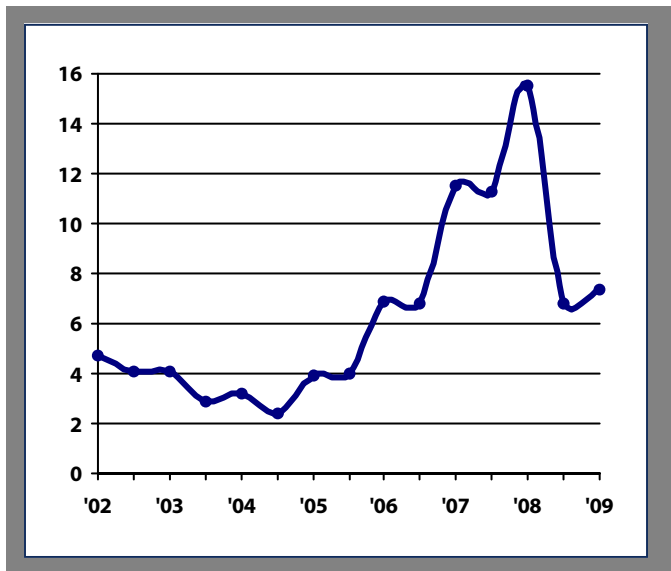
New Construction Permits

Permits are reported by every jurisdiction in the County. We have used only single-family permits as multi-family permits include apartments which would skew the data. Data Source: The Census Bureau



Month's Inventory Supply in Units

Months of supply figures are calculated by dividing active inventory by pending sales. Generally speaking, a figure below 6 is considered to be a balanced market. Data Source: NWMLS



Net in Migration

Natural migration is calculated by subtracting deaths from births. We then subtract this number from total population change to calculate net migration. Data Sources: Washington State Office of Financial Management & Gardner Economics

