



# **Economic & Real Estate Trends and Outlook**

Presented to  
Windermere Eastside  
February 8<sup>th</sup>, 2011

**Presented by:  
Matthew Gardner  
Managing Principal**

**815 Western Avenue, Suite 400  
Seattle, WA 98104  
206.442.9200**

# Gardner Economics



**Have We Been Here Before...?  
Not Necessarily!**



# **U.S Economic Outlook**



## **Fact 1.**

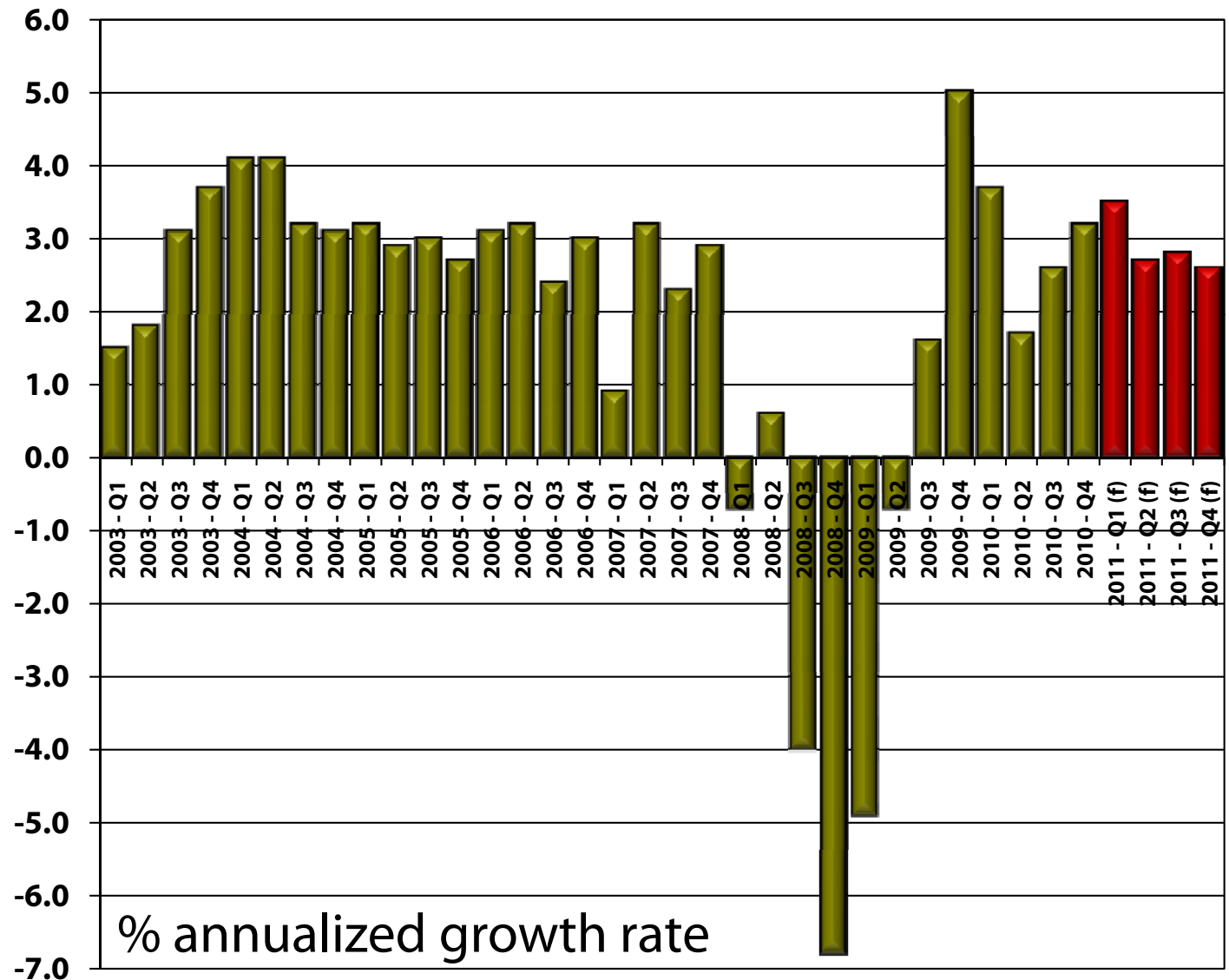
**The Economy is Growing.**

# GDP Growth Forecast

Below Par  
Growth, but  
Growth  
None the  
Less!

I Want to  
See Growth  
Above the  
Historic 3%  
Average.

Economic & Real  
Estate Forecast  
February 8 2011



Source: Gardner Economics LLC & BEA

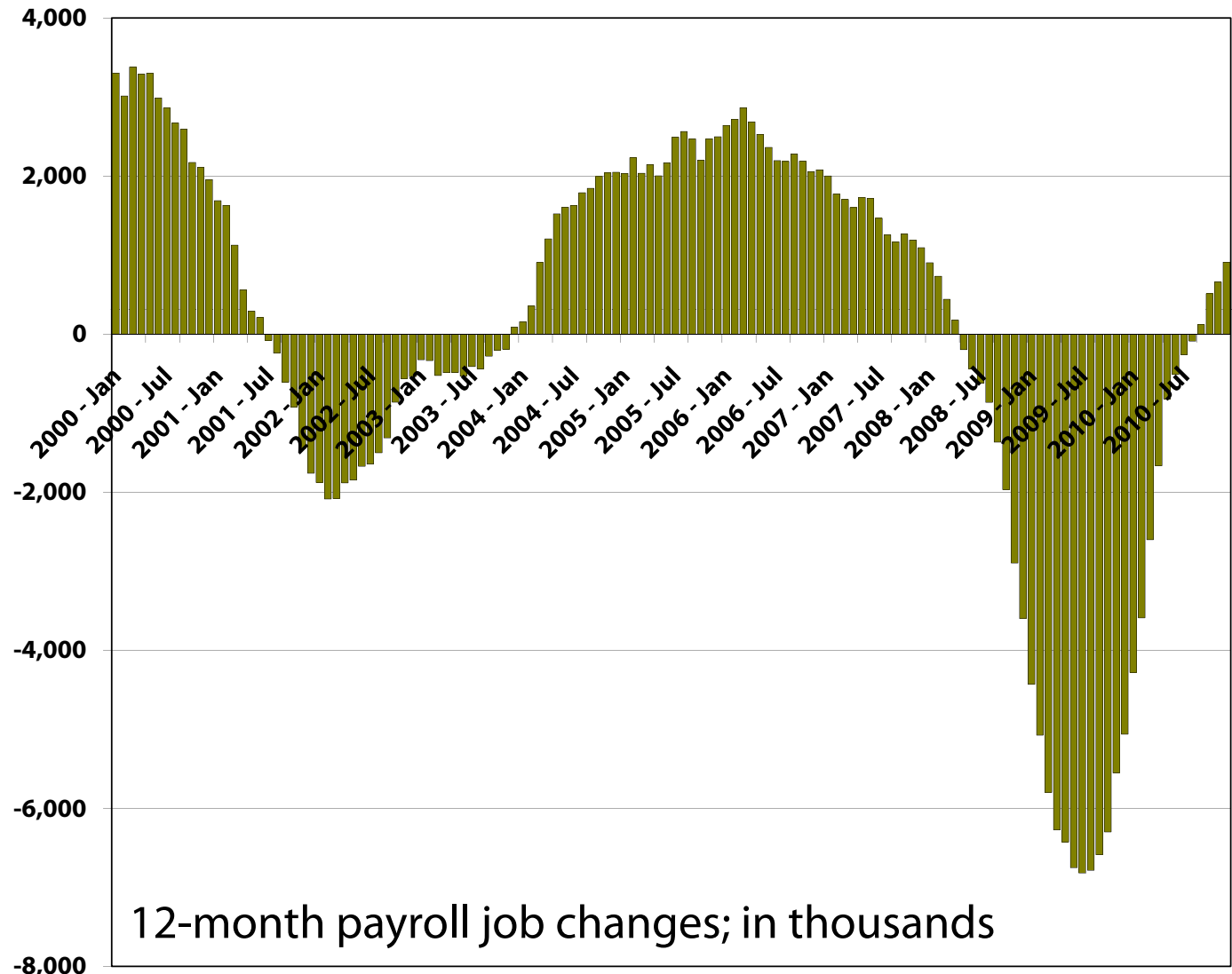


## **Fact 2.**

**We Are Creating Jobs.**

A Recovery  
Appears to Be  
Underway;  
However, the  
Pace of  
Improvement  
is Under Par.

# U.S. Job Losses Have Turned Positive...

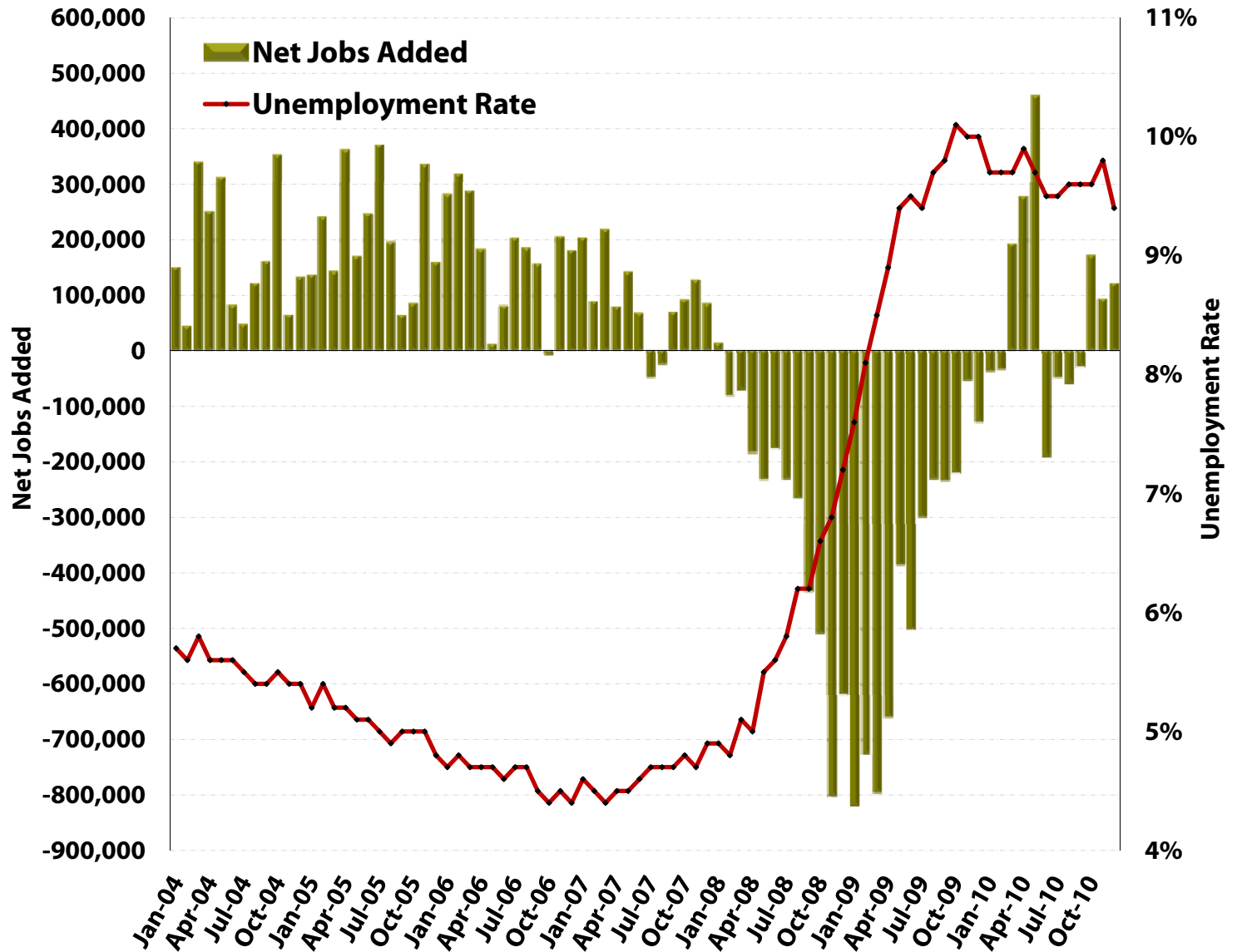


Source: BLS – Seasonally Adjusted Figures – Data through January 2010

# Monthly U.S. Payroll Change

Need 150,000-175,000 New Positions Per Month for Unemployment Rate to Drop.

Recent Declines Due to So Called "Disenchanted" Workers. This Will Likely Push Up Again Before It Comes Down.



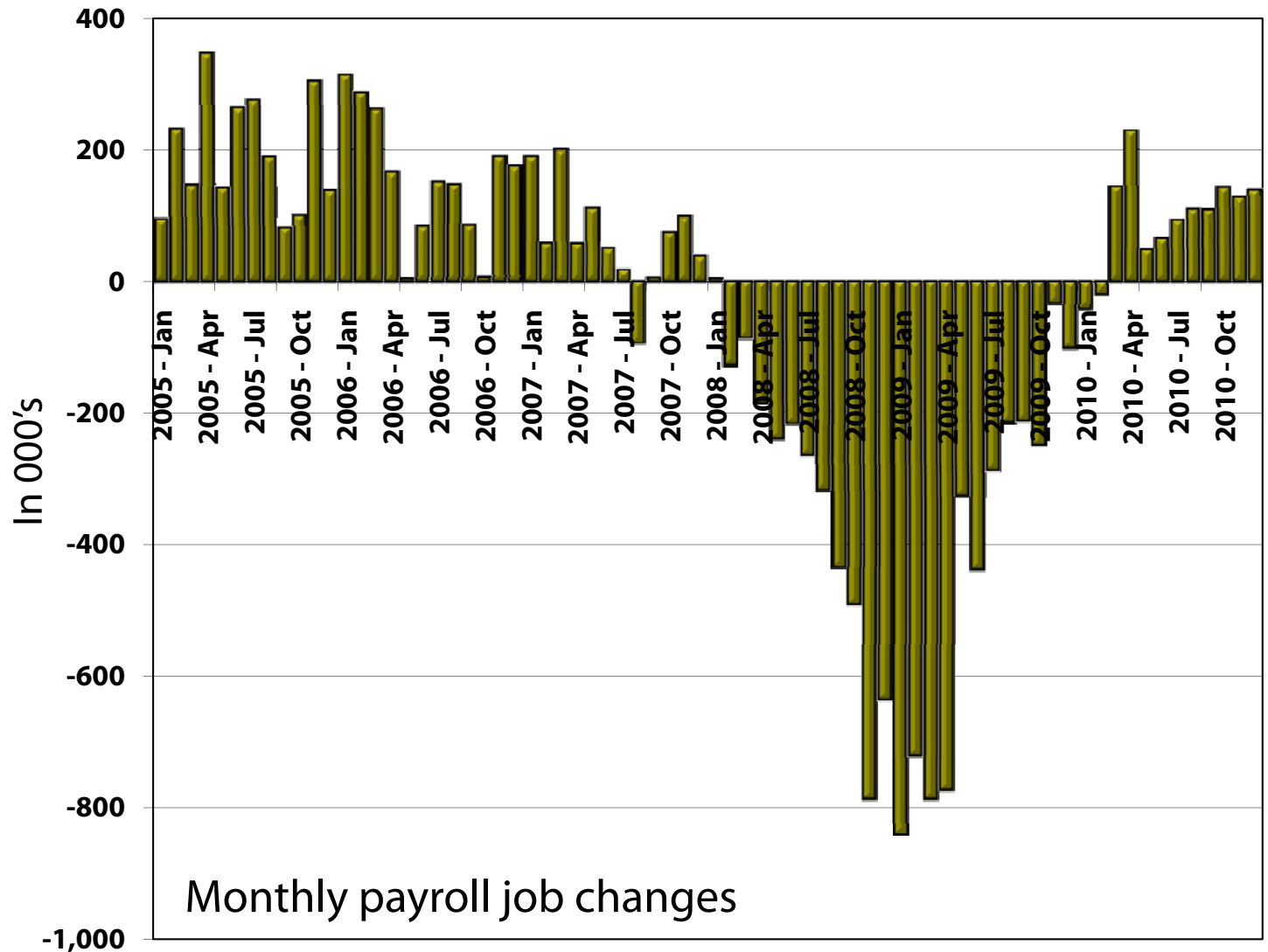
Source: BLS – Seasonally Adjusted Figures – Data Through January 2011

# How Many Years to Get the Job Market Back to Normal?

<b>Jobs added per month</b>	<b>Assumed new jobs needed for growing population per month</b>	<b>How many years?</b>
100,000	100,000	Treading water and never back to normal!
200,000	100,000	6.3 years
300,000	100,000	3.2 years
400,000	100,000	2.1 years

# Private Sector Showing Job Growth!

The Private Sector Added Jobs Every Month Since Last March.



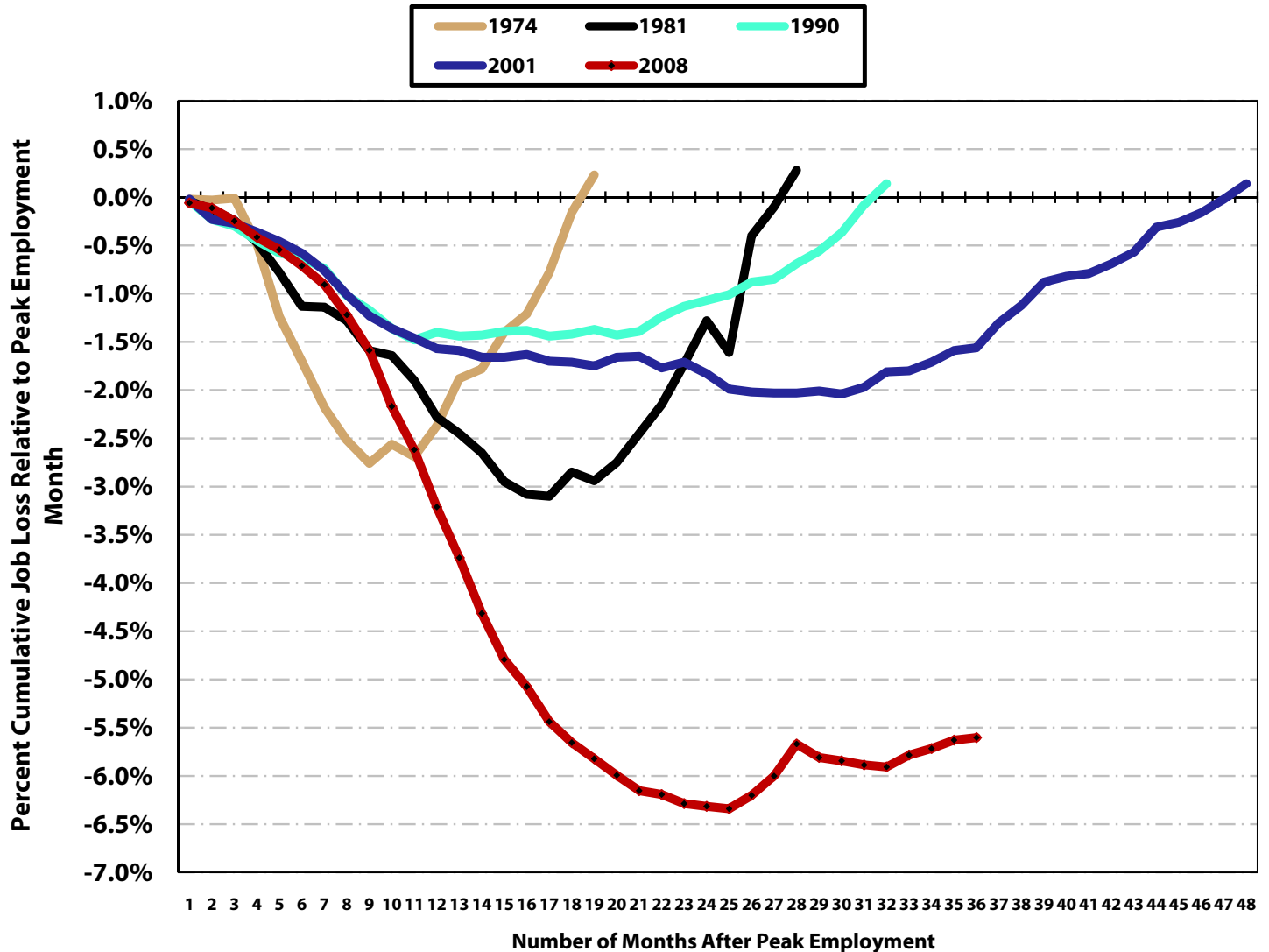
Source: BLS – Seasonally Adjusted Figures – Data Through January 2011

# Upswing In the Job Market Apparent?

We Have  
Swung  
Upward but  
It Will Take  
Years To get  
Back to Pre-  
Recession  
Levels.

Is the  
Recovery  $\surd$ -  
shaped?

Economic & Real  
Estate Forecast  
February 8 2011



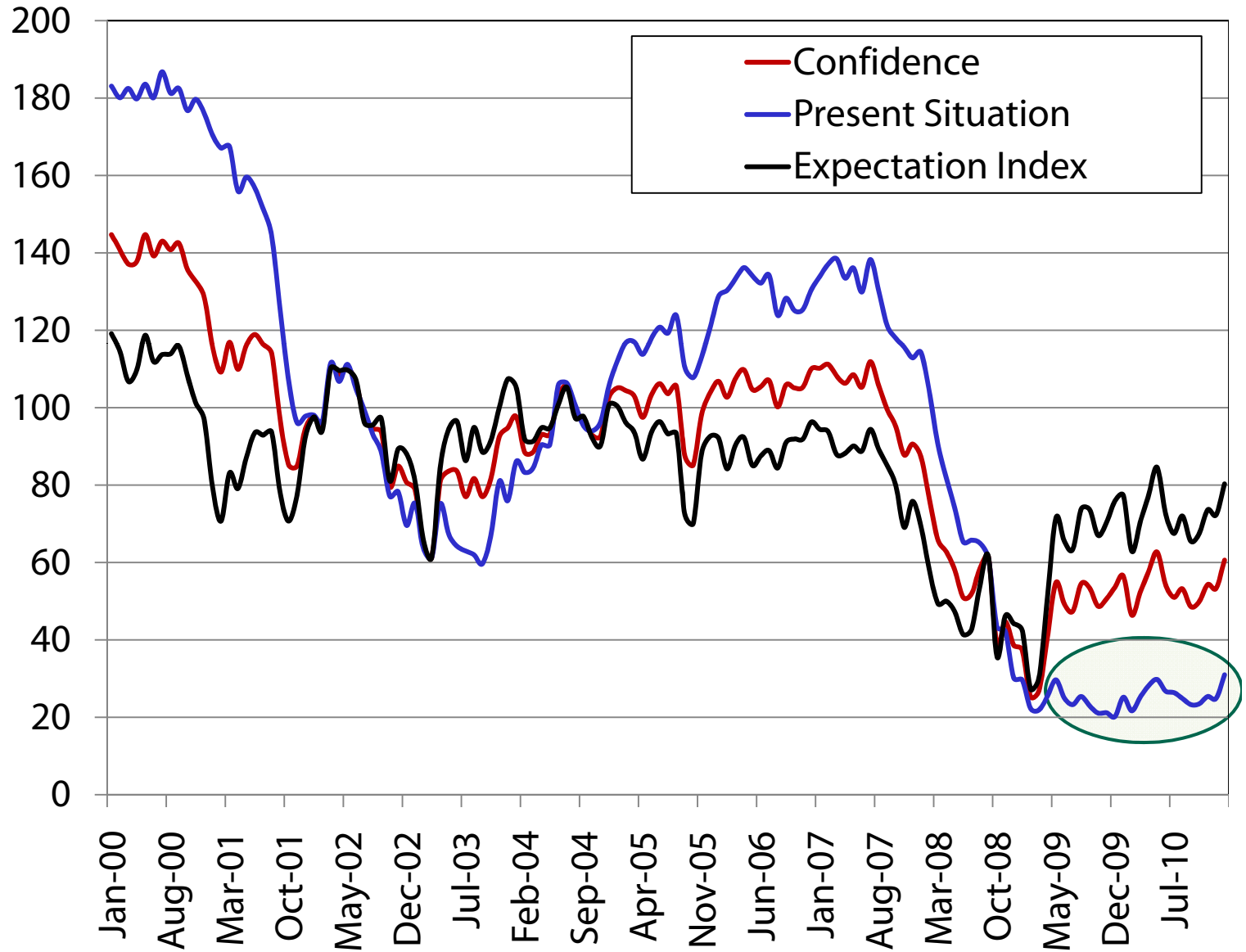
Source: BLS & Gardner Economics –Data through January 2011



## **Fact 3.**

**Consumer Confidence, Although Low, is Clearly Off the Bottom.**

# Consumer Confidence



Expectations  
Have  
Improved, as  
has Overall  
Confidence.

Nice Uptick  
in January!

# U.S. Economic Forecast

- Moderate GDP Expansion 2.5% in the Next 2 Years. (Historical Average is 3%.)
- 1.5 Million Job Additions Annually in the Next 2 Years.
- Unemployment Rate of 8% in 2012... and back to a Normal 6% by 2015.
- Inflation Concerns?



# **U.S. Real Estate**

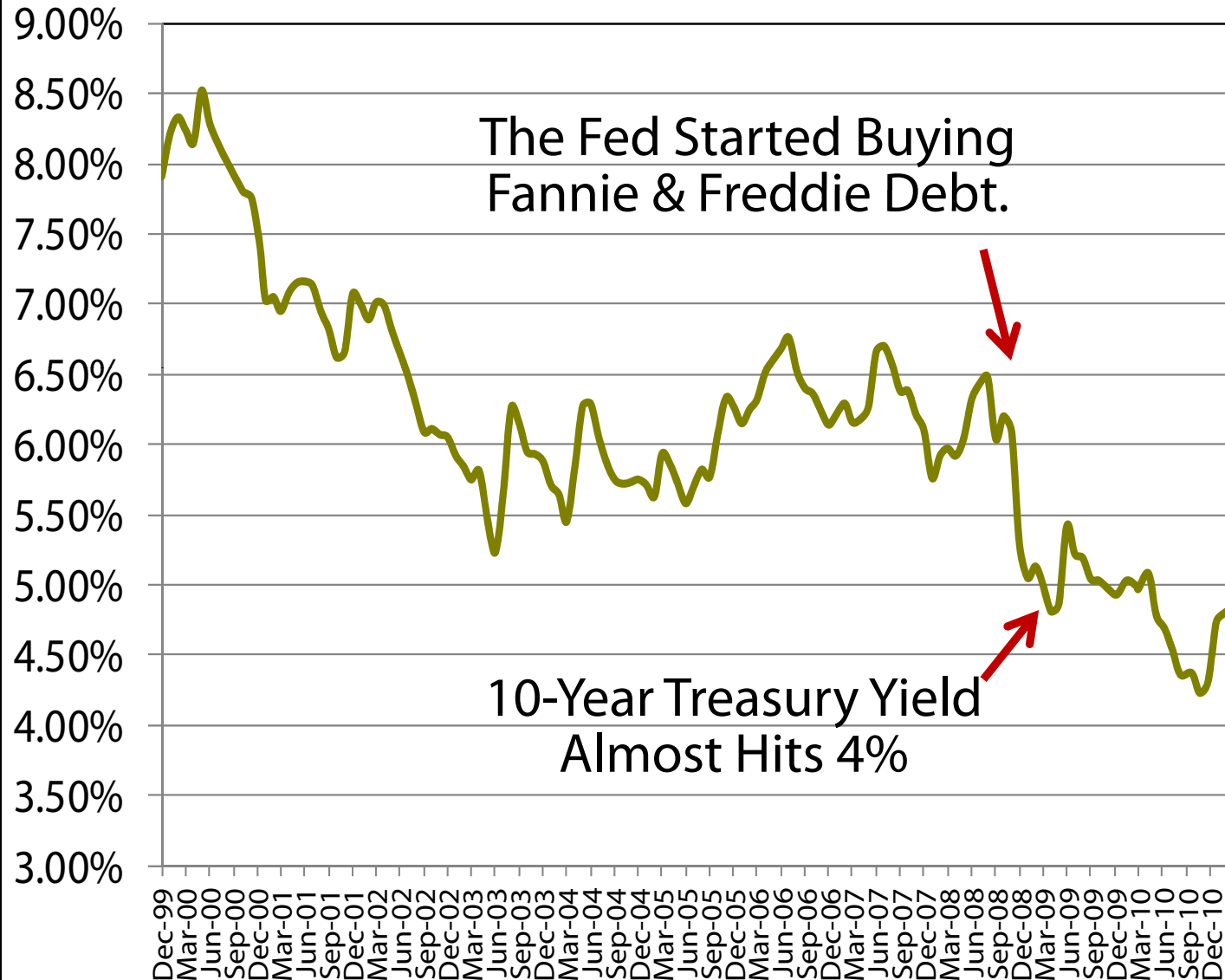


## **Fact 4.**

**30-Year Fixed Mortgage Rates are  
Still at Generational Lows**

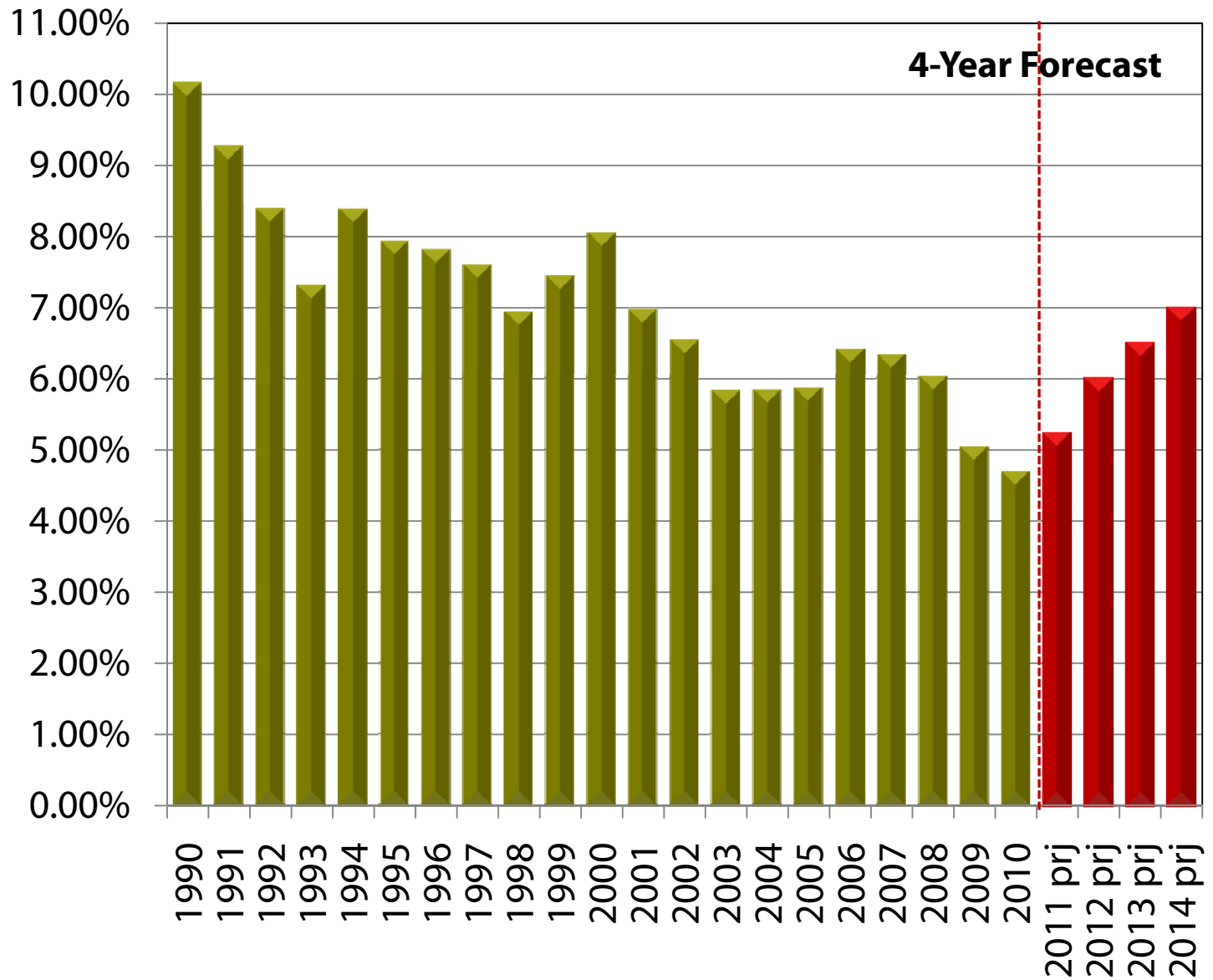
# 30-Year Fixed Mortgage Rates

(QE2)  
Suppresses  
Rates, but  
the Recent  
Increase is  
Due to Better  
than  
Expected  
Economic  
News.



# 30-Year Fixed Mortgage Rates

Mortgage Rates Have to Increase Eventually as Economic Growth Stimulates Inflationary Pressures.





## **Fact 5.**

**I'm Not the Only Economist Who  
Sees a Better Future!**

# Macromarkets Surveys 100 Economists about the Home Price Outlook.

## Expected Home Price Change by Year (Case Shiller Index)

<b>Year</b>	<b>YoY Change</b>	<b>Cumulative</b>
2010	-1.13%	-1.13%
2011	-0.17%	-1.27%
2012	1.94%	0.69%
2013	2.86%	3.61%
2014	3.45%	7.21%
2015	3.67%	11.18%

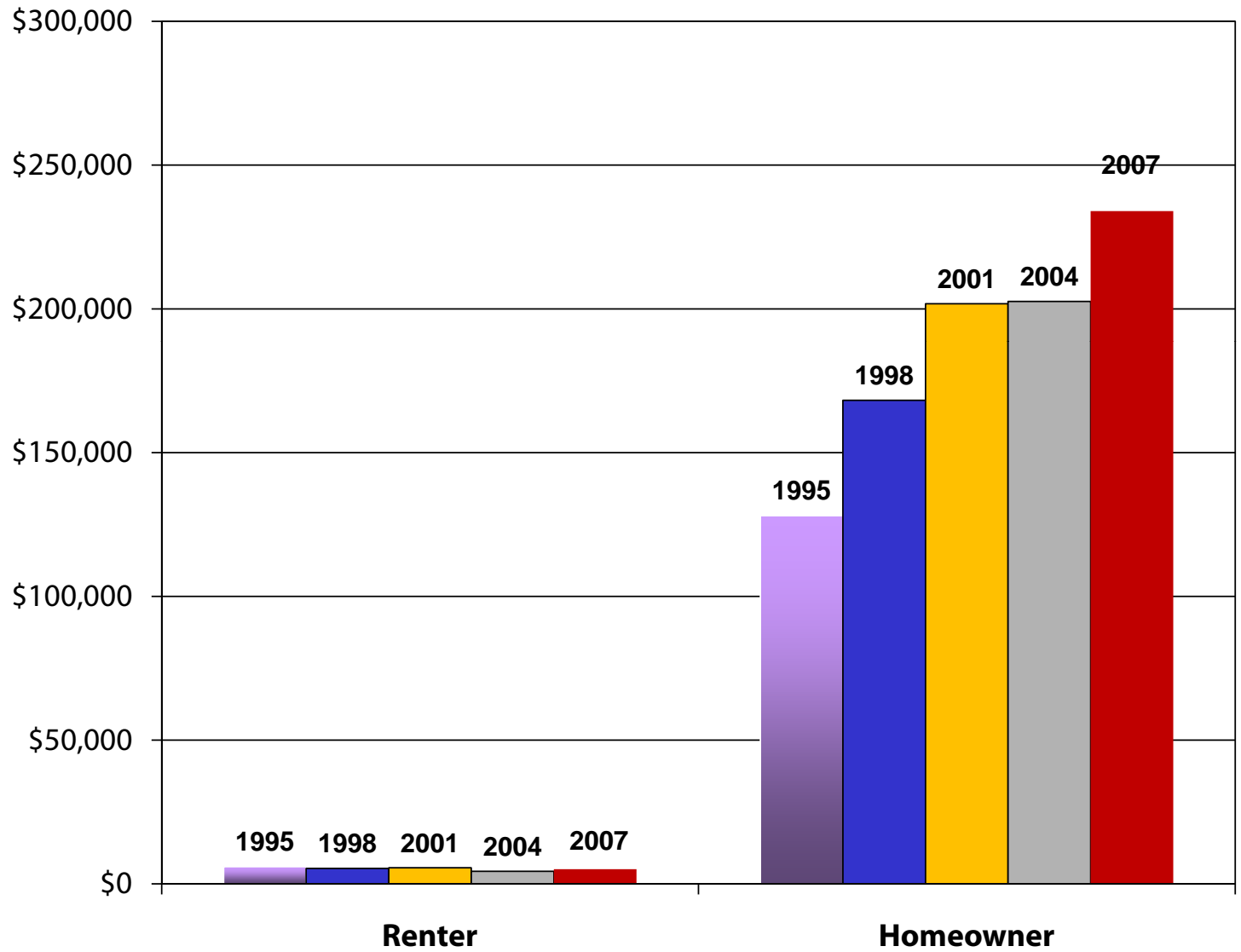


## **Fact 6.**

**Long-Term Path to Self Reliance  
May be Helped from Long-Term  
Housing Wealth Gains.**

2010 data to be published in 2012 by the Federal Reserve.

# Median Family Net Worth



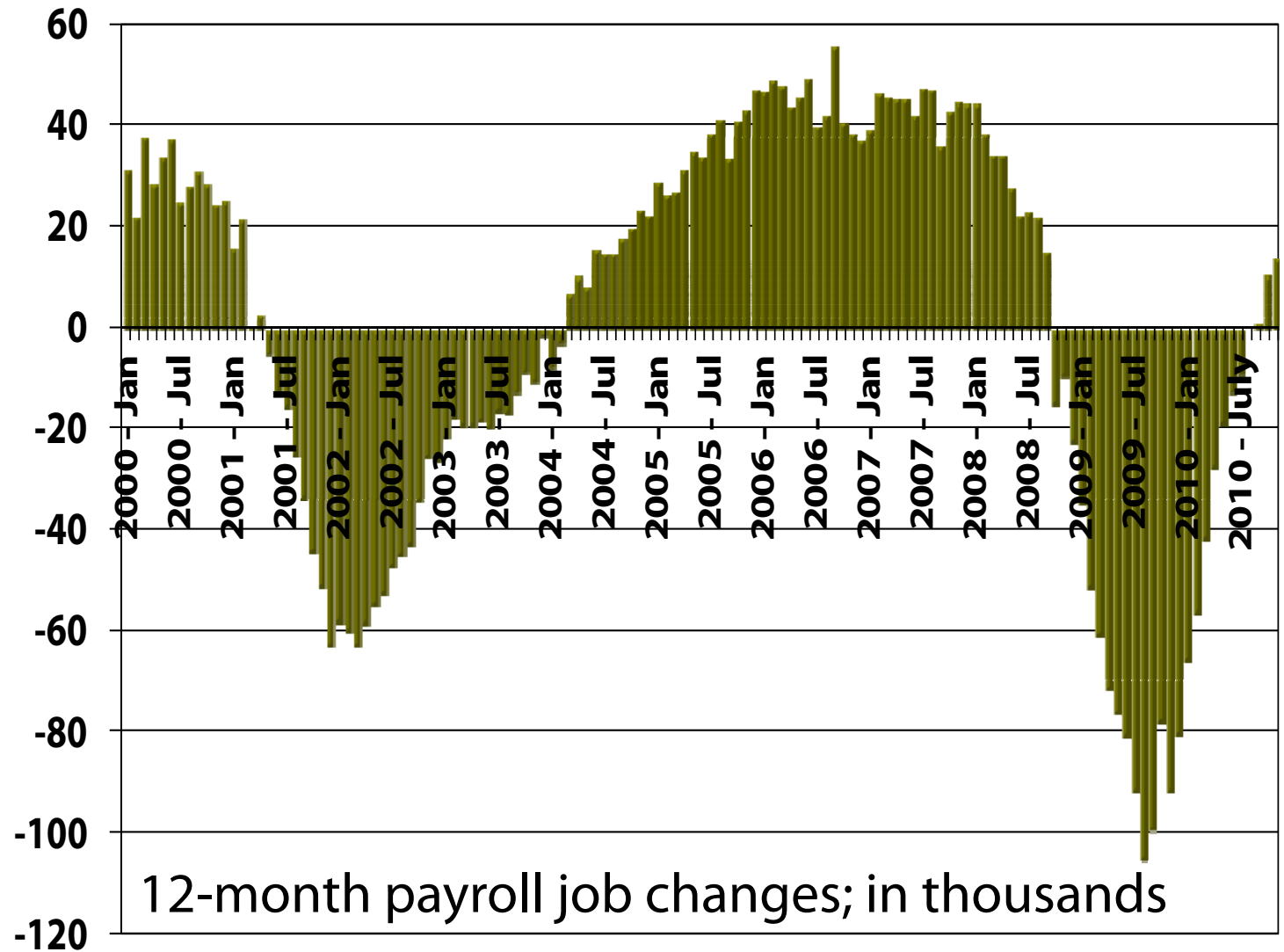
Source: Federal Reserve



# The Seattle Area Economy

# Seattle's Employment Situation

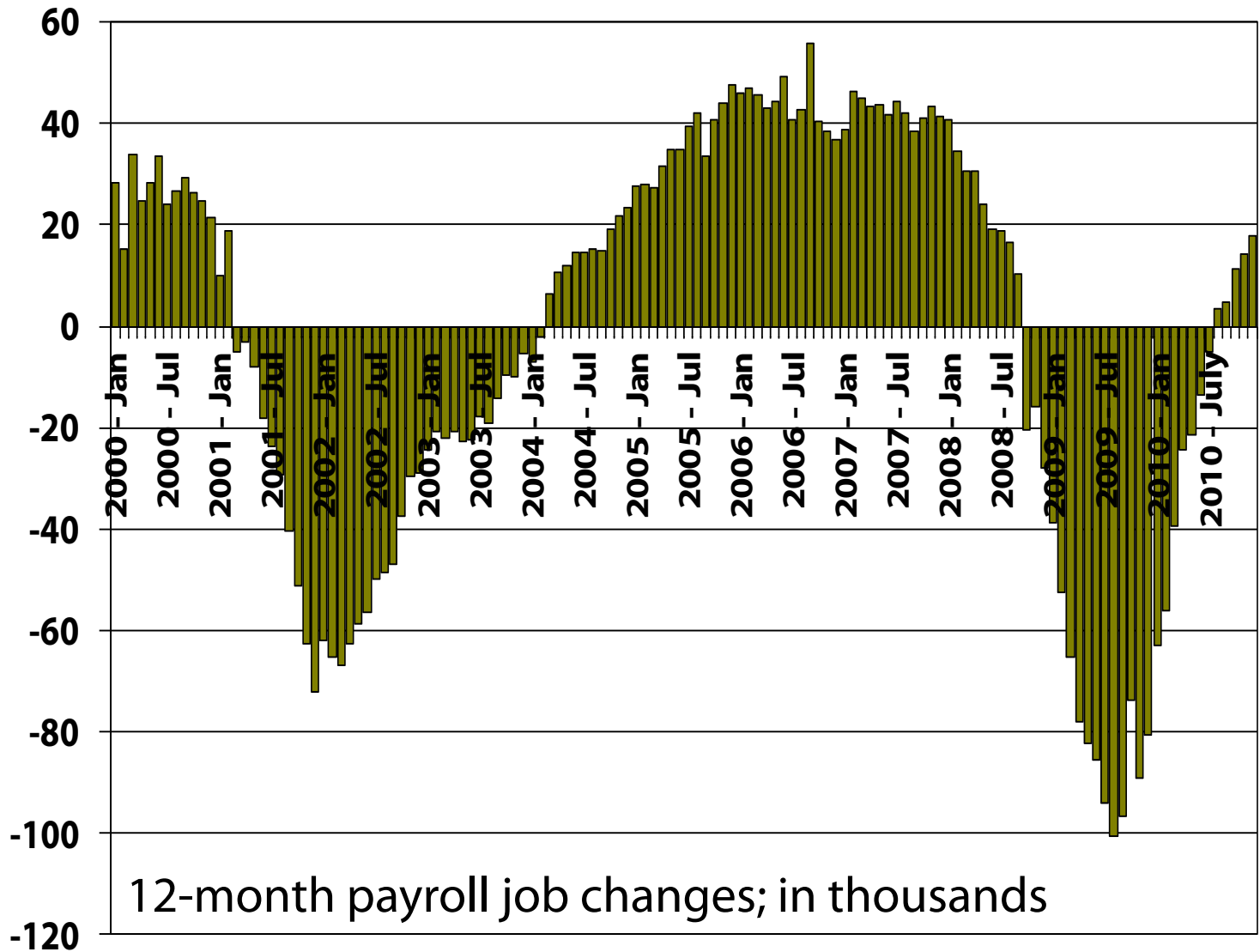
Year-over-Year we See Employment Growth, but Improvement is Still Under Par.



Source: BLS – Seasonally Adjusted – Through December 2010

# Private Sector Employment

Gains Regionally have Been Driven by the Private Sector, Where We Have Seen Positive Growth Since Last August.



Source: BLS – Not Seasonally Adjusted – Through December 2010

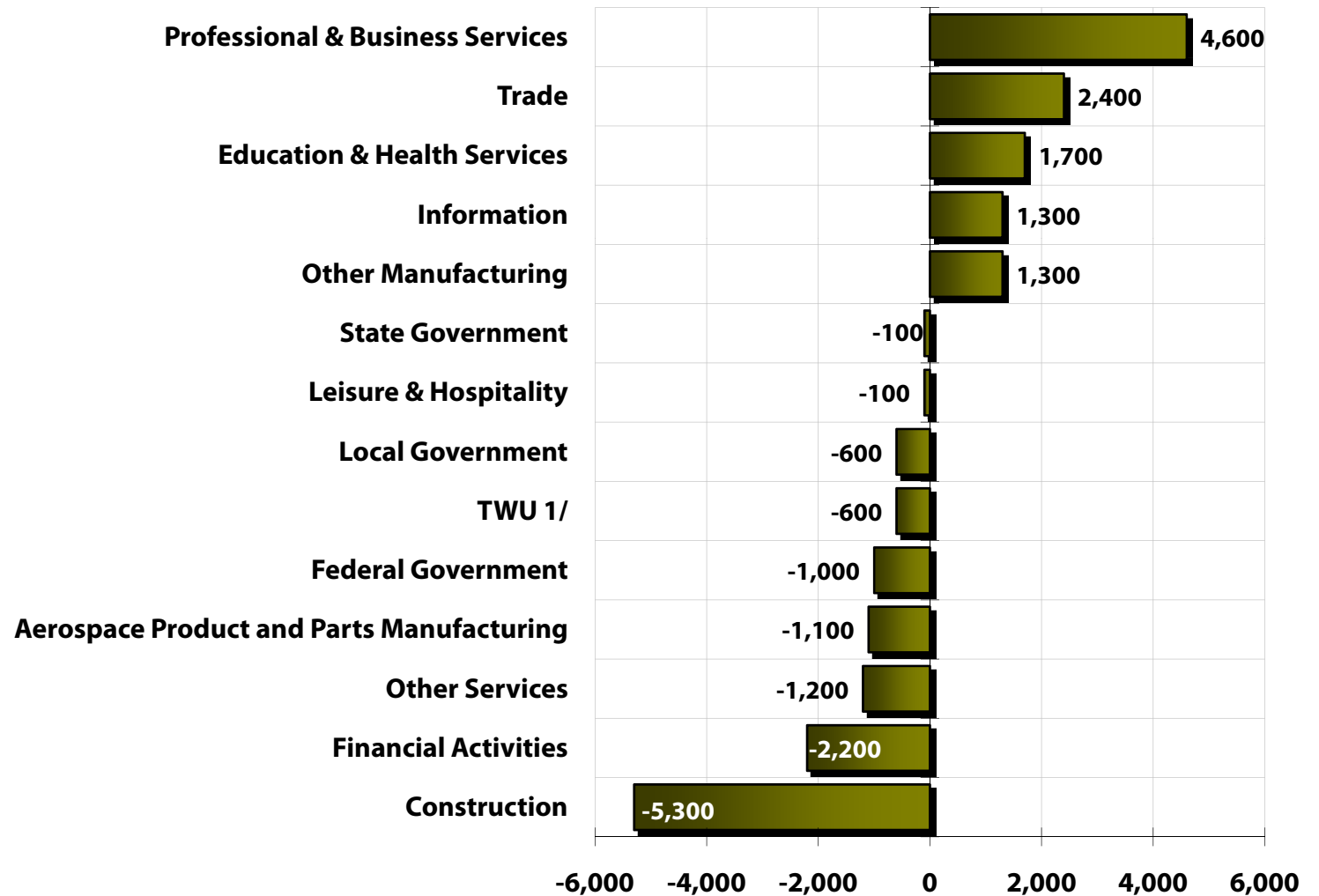
# Local Employment Situation

Declines are Improving.

I am Happy to See Growth in the *Professional Services & Information* Sectors.

Economic & Real Estate Forecast  
February 8 2011

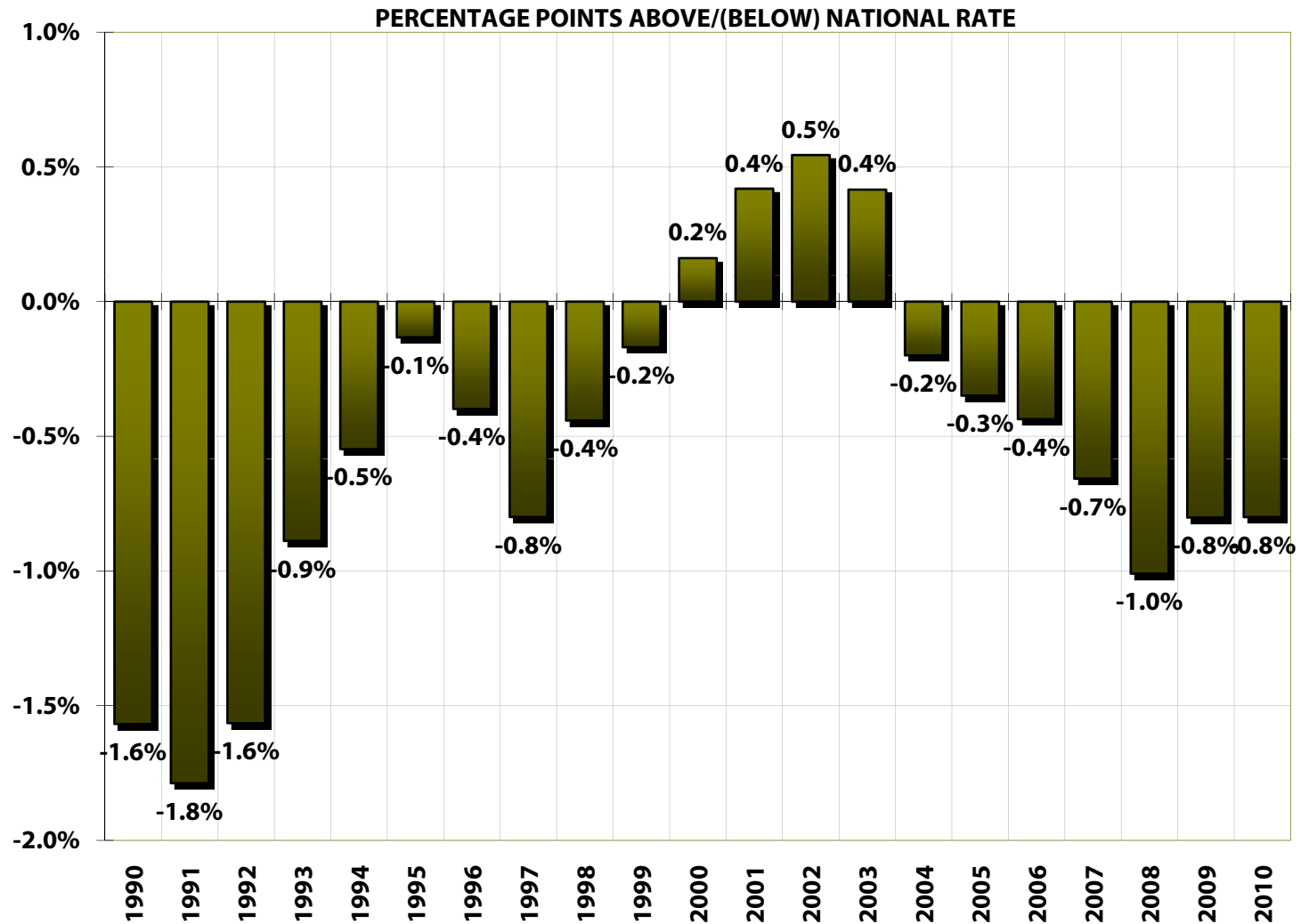
NET EMPLOYMENT CHANGE BY NAICS CLASSIFICATION



Source: WA State – Seasonally Adjusted YoY Growth - Data Through December 2010

# Unemployment Rate Still Below the National Average

In a Holding Pattern for Now.

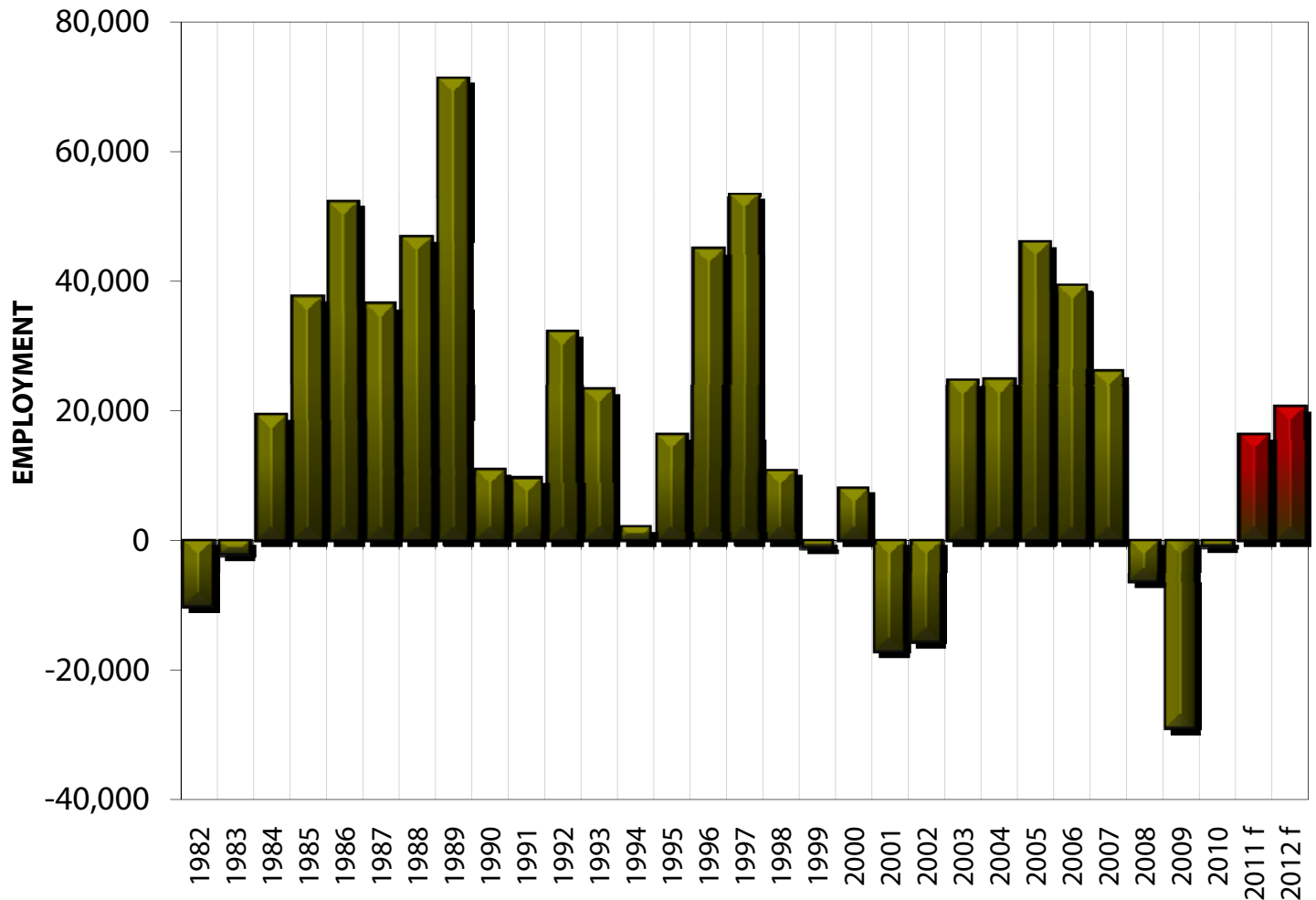


SOURCE: BEA & WA ESD

# We Will Start Regaining Jobs This Year

Employment Growth Will be Slow, but Still Positive.

**HISTORIC AND PROJECTED ANNUAL EMPLOYMENT CHANGE**



SOURCE: WA ESD & Gardner Economics Forecast

# **Puget Sound Employment Situation**

- Job Growth Will Be From the Center Out.
- We Will Still Fare Better Than All West Coast States.
- Job Drivers? The 5 B's.....



# The Seattle Area Residential Market

# Case Shiller Index

Some Areas  
That Saw the  
Biggest  
Corrections  
are Showing  
Improvement.

I am Not a Fan  
of this Index!

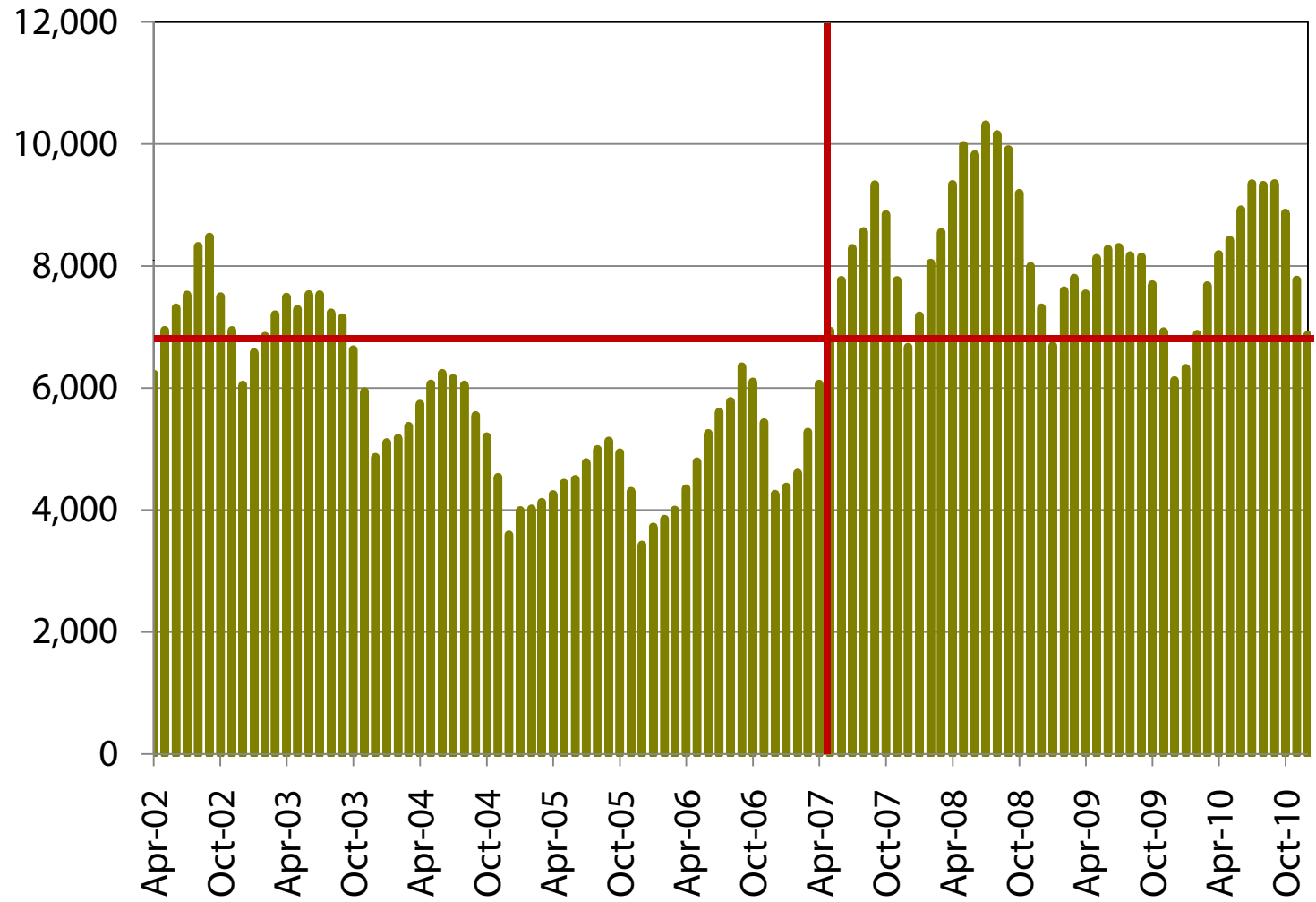
Year	Seattle	San Francisco	Los Angeles	San Diego	Miami	Las Vegas	Phoenix
2000	6.7%	28.6%	10.1%	16.3%	8.9%	5.4%	5.9%
2001	4.6%	-4.3%	8.8%	10.0%	12.5%	7.7%	5.3%
2002	3.9%	13.8%	18.0%	19.9%	14.0%	7.1%	4.6%
2003	7.4%	9.0%	20.6%	18.5%	13.3%	17.0%	7.9%
2004	11.4%	19.1%	22.8%	25.1%	22.2%	42.3%	20.4%
2005	17.1%	13.6%	20.7%	6.3%	28.9%	10.6%	42.0%
2006	11.2%	-1.2%	1.5%	-3.8%	4.7%	0.5%	-0.1%
2007	0.5%	-10.6%	-13.3%	-14.6%	-17.1%	-15.0%	-14.8%
2008	-11.8%	-29.2%	-23.6%	-22.9%	-26.8%	-29.4%	-31.2%
2009	-4.4%	9.6%	2.9%	5.4%	-6.5%	-16.9%	-4.0%
2010 YoY	-4.71%	0.44%	0.62%	2.1%	-3.54%	-3.48%	-6.35%

Where Are We Relative to the  
Past?

# Resale Inventory Levels King County

December  
Inventory =  
6,868 Units.

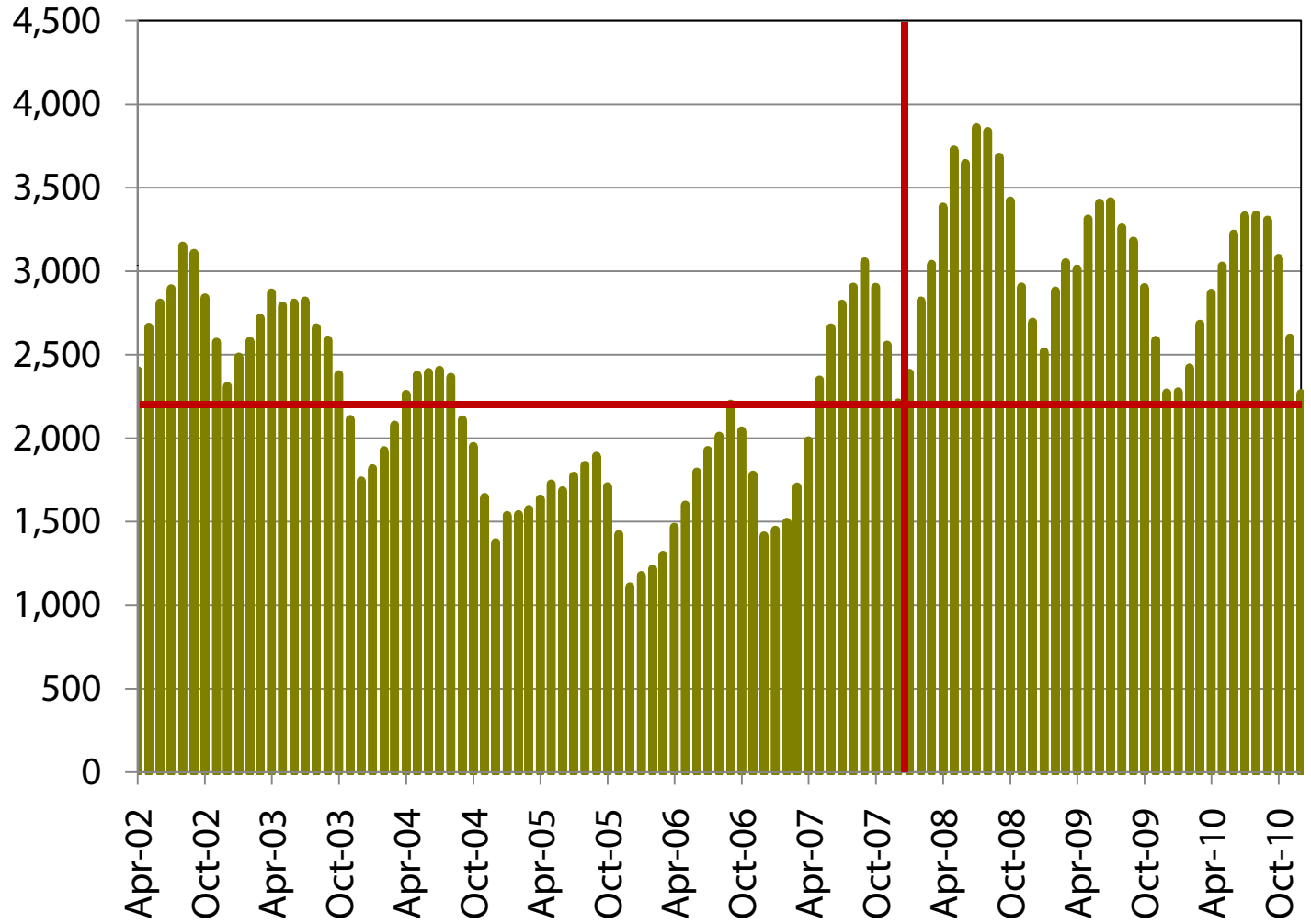
Last There in  
Jan '10 and  
May '07.



# Resale Inventory Levels Eastside

December  
Inventory =  
2,268 Units.

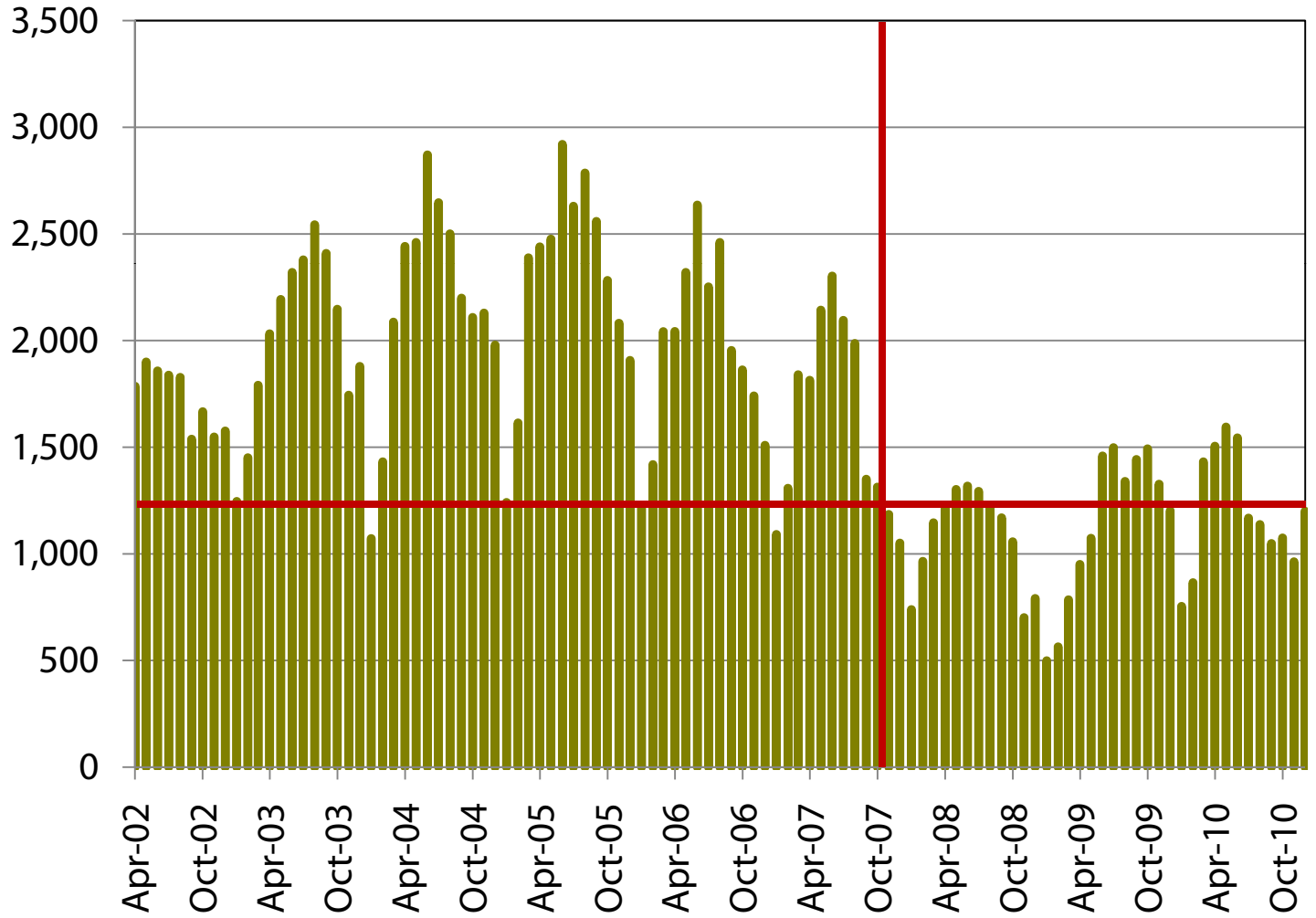
Last There in  
Jan '10 and  
December  
'07.



# Resale Sales Transactions King County

December  
Sales =  
1,200 Units.

Classically  
Cyclical  
Pattern but  
Now Off the  
Bottom

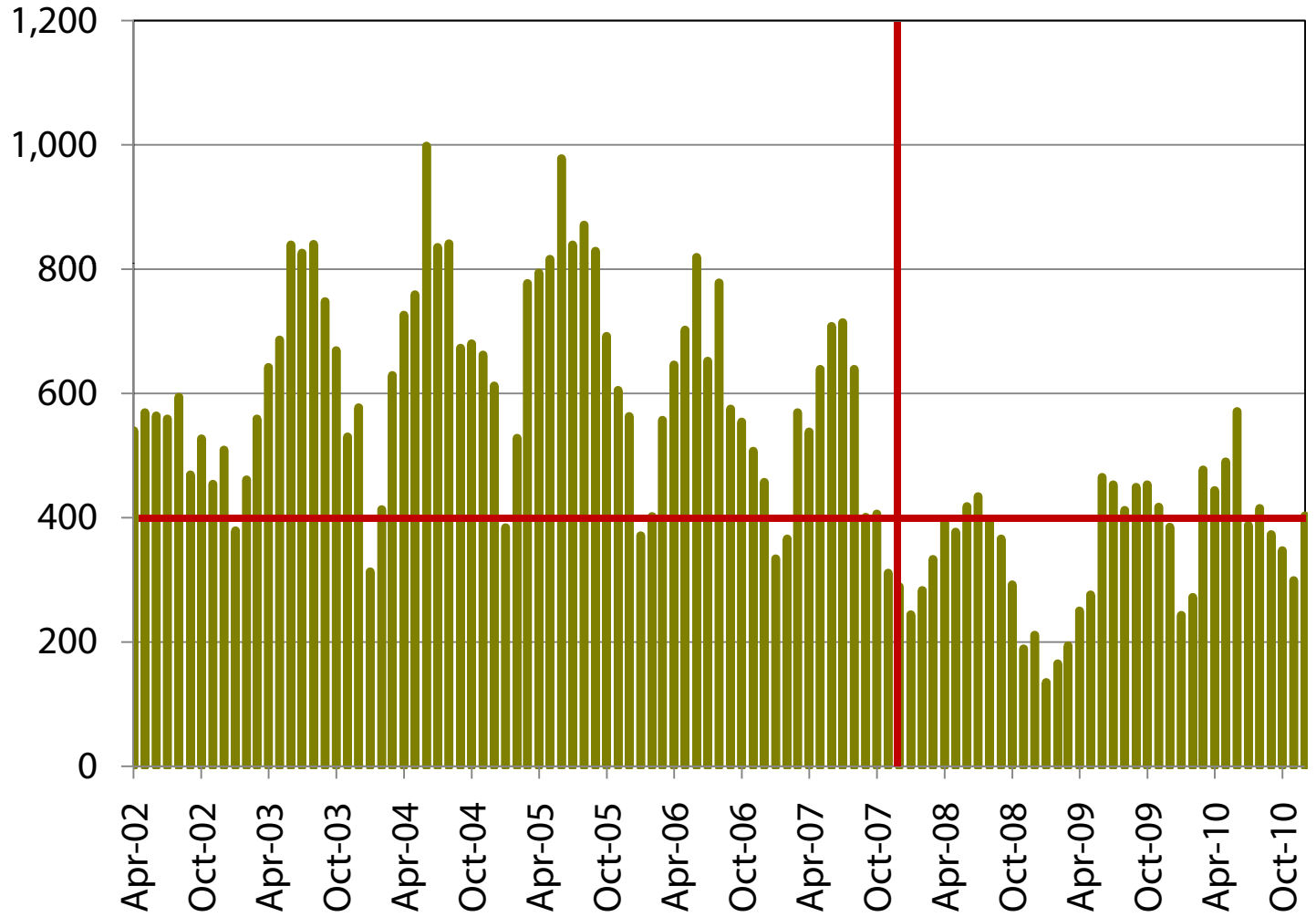


# Resale Sales Transactions Eastside

December  
Sales = 403  
Units.

Another  
Classically  
Cyclical  
Pattern, but  
Clearly Off  
the Bottom.

Economic & Real  
Estate Forecast  
February 8 2011

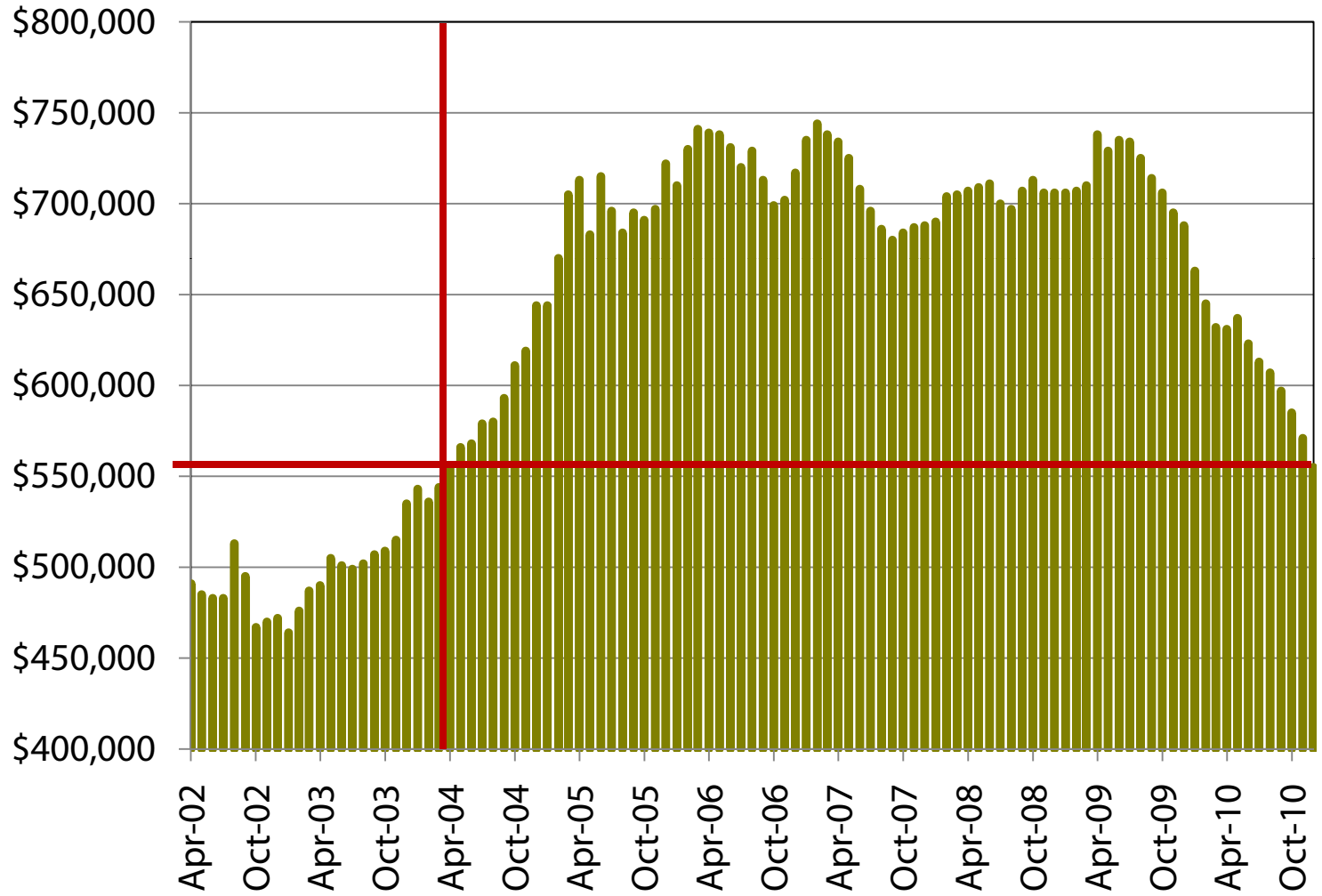


Source: NWMLS & Gardner Economics LLC – SF Resale Product

# Average List Prices King County

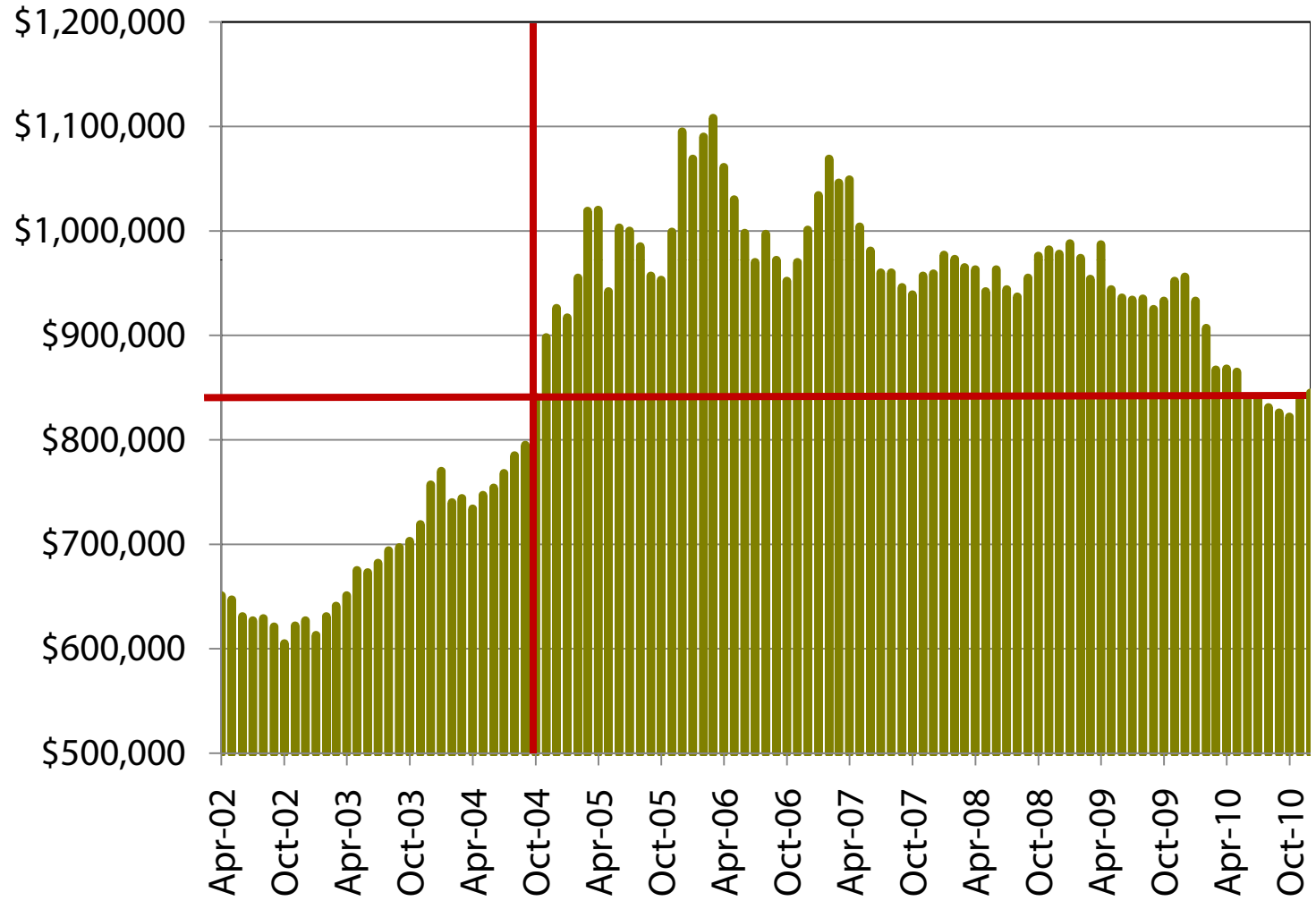
List Prices  
are Still In  
Decline.

Last Seen in  
April '04.



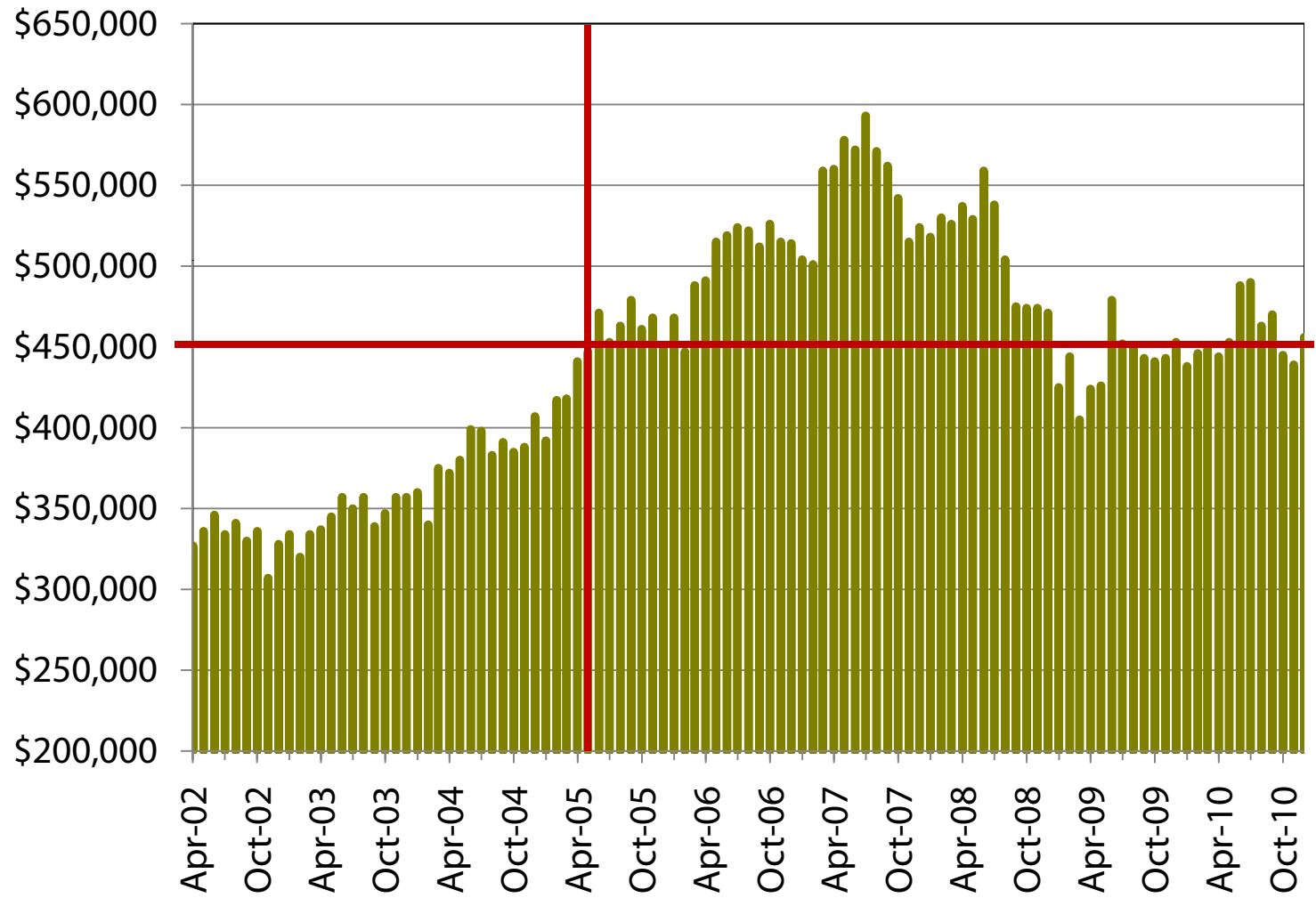
# Average List Prices Eastside

At \$845,000,  
List Prices  
are Back at  
October  
2004 Levels.



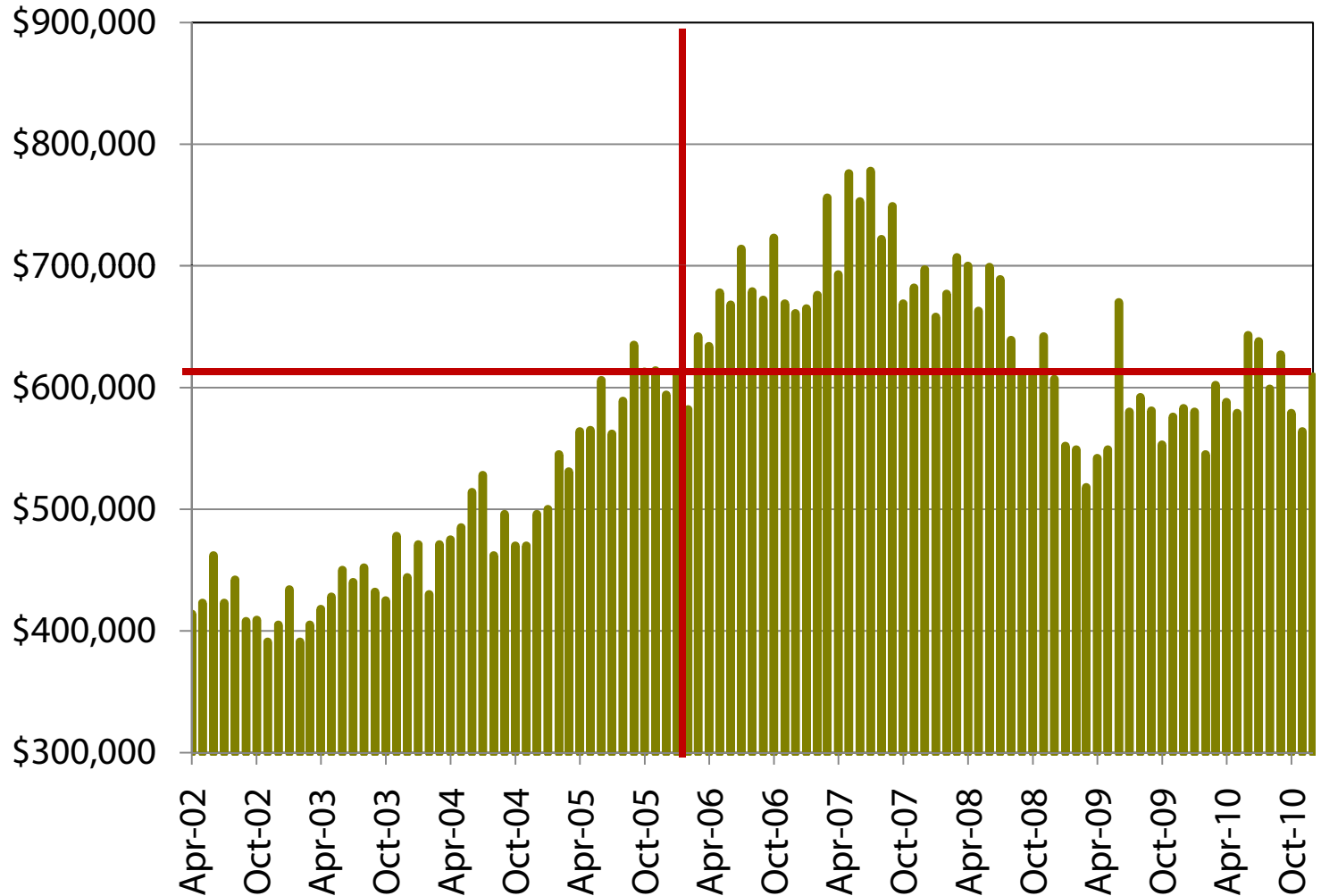
# Average Sale Prices King County

\$456,000  
in  
December;  
last Seen  
July 2005.



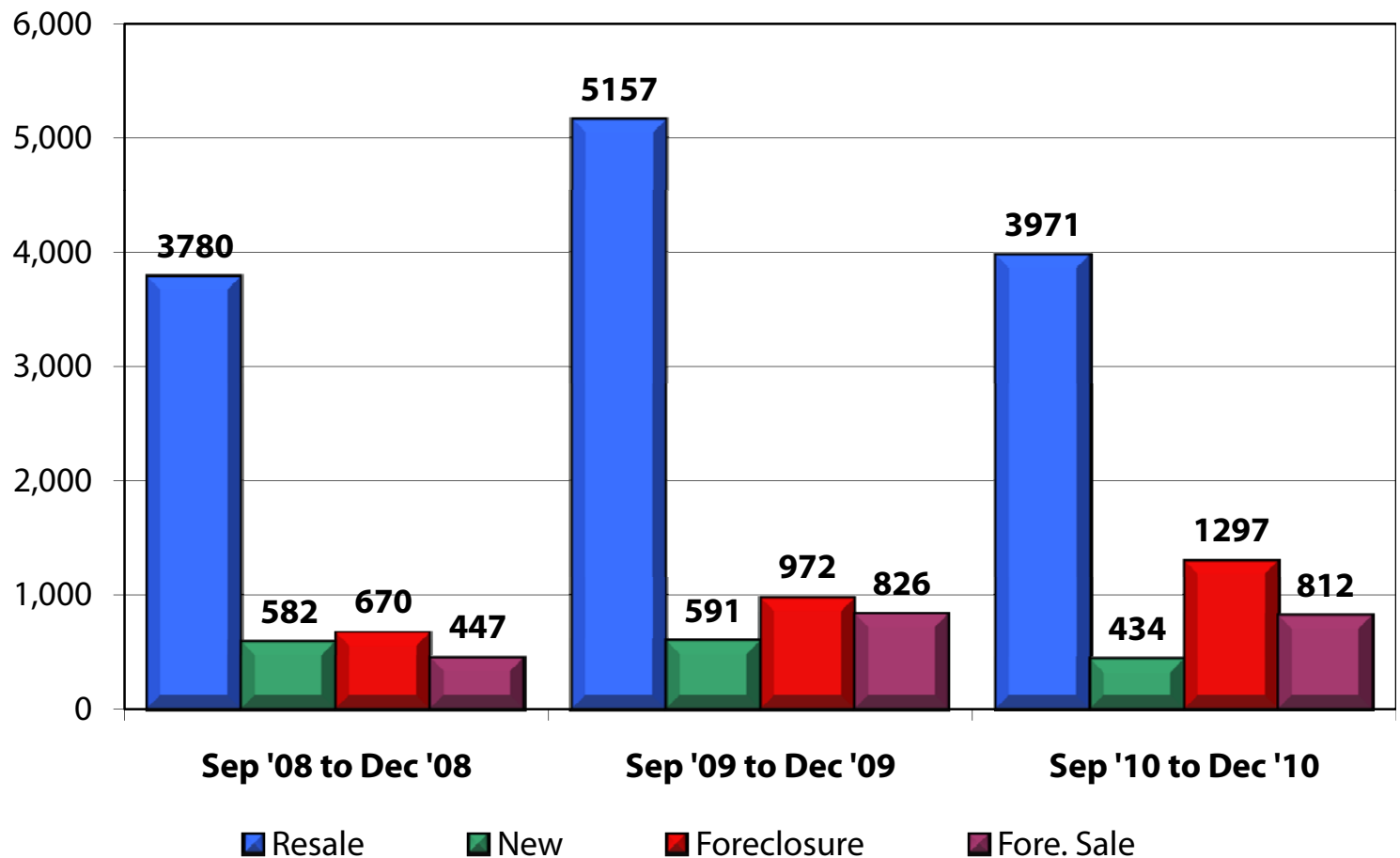
# Average Sale Prices Eastside

\$609,000 in December;  
Prices have been bouncing around but we can see tangible improvement.



# Transactions by Type King County

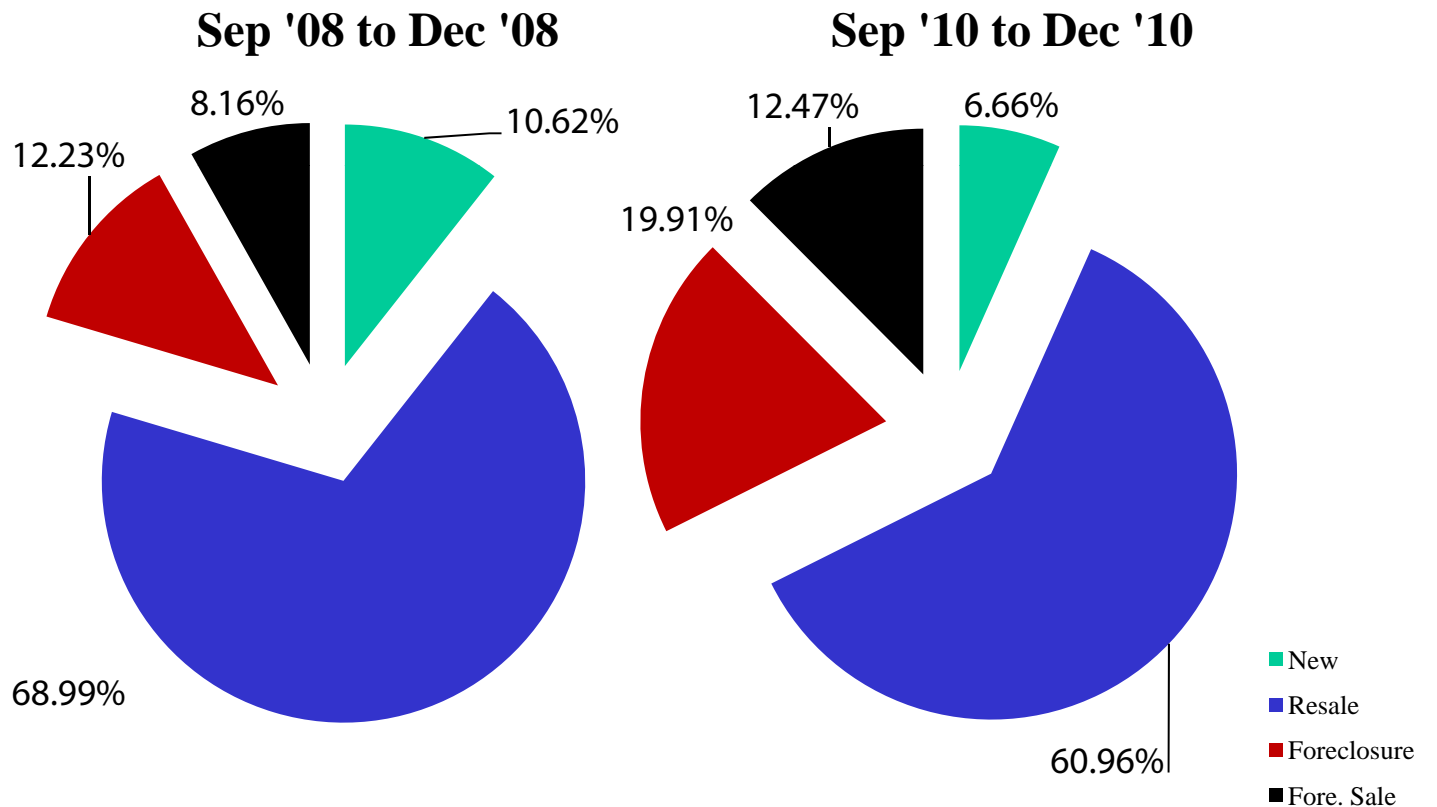
Housing Transaction Volume By Type



Distressed Units Have Increased but Sales Appear to be Slowing.

# Transactions by Type King County

Further Declines in New Construction Activity.



# Real Estate Conclusions

- Buyers Are Still Looking For Deals & Uncertainty Remains?
- Continued Job Growth Will Add Confidence to the Market.
- Uncertainty in the Condo Market Remains.

# Real Estate Conclusions Cont....

- Price Stability Should Continue with the Eastside Fairing Better than Most.
- Expect Transactional Velocities to Be Modestly Higher than 2010.
- Distressed Units Will Still Weigh on the Market.
- Interest Rate Increases May Get Buyers Off the Fence.

Punxsutawney Phil Saw His Shadow  
Yesterday, So I am Predicting an Early Thaw  
in the Economy!



# Follow My Thoughts!



The screenshot shows the Master Builders Association website. At the top, there is a navigation bar with links for CONTACT US, SITE SEARCH, SITE MAP, and LOG IN. Below the navigation bar, the main content area is divided into three columns. The left column contains a 'Home' menu with links to various sections. The middle column features an article titled 'Economic Insights' by Matthew Gardner, dated November 2, 2009. The article includes a photo of the author and a list of bullet points. The right column contains a list of links for various services and resources. The 'Economic Insights' link in the right column is circled in red.

**Home**

- NWHomeFacts.com
- Centennial Celebration
- Mercer Slough Legacy Project
- Your New Home
- Remodeling Your Home
- Maintaining Your Home
- Events and Tours
- MBA Publications
- Press Room
- Classified Ads
- Site Search

**Economic Insights >**

**Economic Insights**

By Matthew Gardner, Gardner Economics LLC  
November 2, 2009



**What to Watch This Week**

- It is my expectation that construction spending figures will be flat, if not slightly negative as we continue to wait for an extension of the first-time homebuyer tax credit. This is also a function of seasonal slowdowns.
- I see that pending home sales across the US will post further gains as

**How to Join**

- About the MBA
- Membership Benefits
- MBA University
- Master Builders Care Foundation
- Master Builders Career Connection
- Industry Issues
- Political Action Center
- Economic Insights Resources**

**BUILT GREEN**

[www.MasterBuildersInfo.com](http://www.MasterBuildersInfo.com)



Windermere  
Real Estate

<http://blog.windermere.com/>



[SeattleEcon](http://SeattleEcon)

# Questions?

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