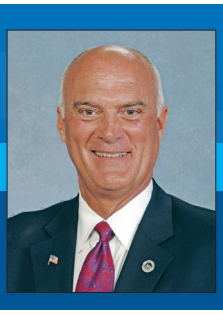
THE CHAIRMAN'S REPORT

First Quarter
2012 Update

Real Estate Update from Bert Waugh, Jr.
Chairman of Prudential Northwest Properties



First Quarter Portland Metro RMLS Report

Comparing first quarter of 2012 with the same period in 2011 closed sales increased 12.2%. There were more closed sales in the first three months of 2012 than in any first quarter since 2007. Pending sales were up by 18.2% in the quarterly comparison, with new listings decreasing by 12%.

A comparison of first quarter prices this year and last shows average sales price declined less than one-half percent. The average sale price was $251,700 in the first quarter of this year and $252,800 in the comparable period last year. The median sale price decreased 1.4% ($212,000 this year and $215,000 in 2011).

Total days on market decreased by 17.9%, going from 165 in the first quarter last year to 135 in the first quarter of 2012. In March, inventory hit 5.0, the lowest point in several years.

Inventory in Months*	2010	2011	2012
January	12.6	11.3	7.0
February	12.9	10.9	6.5
March	7.8	7.1	5.0
April	7.3	7.2	
May	7.0	6.8	
June	7.3	6.0	
July	10.8	7.0	
August	11.0	6.2	
September	10.5	6.7	
October	10.7	6.8	
November	10.2	6.2	
December	7.9	5.3	

Residential highlights from March:

Portland Metro Residential Highlights		New Listings	Pending Sales	Closed Sales	Average Sale Price	Median Sale Price	Total Market Time
2012	March	2,886	2,272	1,694	252,600	215,700	135
	Year-to-date	8,070	5,809	4,303	251,700	212,000	135
2011	March	3,056	2,014	1,615	261,100	215,000	161
	Year-to-date	9,172	4,915	3,834	252,800	215,000	165
Change	March	-5.6%	12.8%	4.9%	-3.3%	0.3%	-16.3%
	Year-to-date	-12.0%	18.2%	12.2%	-0.4%	-1.4%	-17.9%

Reasons to be Optimistic

According to the RCLCO National Real Estate Sentiment Survey by Charles Hewlett, real estate industry professionals across the country continue to express confidence that the U.S. economy and real estate markets are gaining momentum, and are likely on a clear path to a sustained recovery.

> **"84% of the general population believes that owning a home makes more sense than renting."**

Perhaps the most encouraging result from the latest survey is that more than twice as many respondents reported that both the overall U.S. and their local or regional markets are significantly better compared with one year ago, and are likely to continue to be significantly better over the next 12 months. Over three-quarters of the respondents view the markets as better today, compared with less than 40% when RCLCO first began the survey back in 2009.

Despite some disappointing job numbers for March, real estate industry professionals continue to be optimistic about the future prospects for the economy and the real estate markets. Continuing the positive vibe from the first quarter of 2012, over 80% of the respondents expect the economy and real estate markets will be either moderately or significantly better over the next year.

Each quarter, Fannie Mae releases their National Housing Survey. They survey the American public on a multitude of questions concerning today's housing market. Here are some interesting findings from the recent report: ***84% of the general population believes that owning a home makes more sense than renting.***

When we talk about homeownership today, it seems that the financial aspects always jump to the front of the discussion. However, the study shows that the four major reasons a person buys a home have nothing to do with money.

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Though most people purchase a home for non-financial reasons, everyone realizes there is a money component to homeownership.

- **63% of the general population believes that homeownership is a safe investment.**
- **53% believe that homeownership has more potential as an investment than any other traditional asset class.**

Mortgage lenders aren't rolling out the red carpet on home loans just yet, but with fewer delinquencies and defaults, there's optimism as looser credit for home loans has become a talk of board room chatter. FICO's first quarter survey of bank risk professionals found sentiments about loan repayment and credit availability more upbeat than in the last quarter.

11 Irrefutable Signs of a Real Estate Shift

As noted in a recent Wall Street Journal article, auto sales, consumer confidence, manufacturing, retail sales, exports, you name it … over the last six months, nearly every facet of the U.S. economy has shown improvement. And the real estate market is no exception. Here's the irrefutable proof:

Recovery Sign #1: Housing Starts. In February, housing starts checked-in at an annual rate of 698,000 units. That's up 14.7% from the 608,800 starts in 2011… up 18.9% from the 586,900 starts in 2010… and up 25.9% from the record-low 554,000 starts in 2009. Even after the uptick, though, we're nowhere close to the high-water mark of 2.07 million starts hit in 2005.

Recovery Sign #2: Building Permits. In February, building permits – a proxy for future construction – climbed to an annual rate of 717,000 units. That was ahead of expectations. It also represents the highest level since October 2008.

Recovery Sign #3: Dwindling Inventory. Expect even more building on the horizon. Why? Because new home inventories hit their lowest level on record in January at 150,000 units. If we include existing homes in the mix, the total number of homes listed for sale has dropped – on a year-over-year basis – for 12 consecutive months. Now there are 2.43 million homes listed for sale, which is down 19.3% in the last year and down 39.8% from the record inventory of 4.04 million homes in July 2007.

Recovery Sign #4: Bidding Wars. The lack of inventory is creating a competitive bidding environment. One online brokerage firm reported that agents encountered multiple bids on about 50% of offers in Seattle, Boston, Washington D.C. and Oregon through March 15.

Recovery Sign #5: A Bottom in New Home Sales. Last year, new home sales fell to 302,000 units – the worst reading on record. For comparison's sake, in 2005, 1.28 million new homes were sold. The market has likely bottomed out. I say that because new home sales in February checked-in at an annual rate of 313,000 units, which is 11.4% higher than last February's rate.

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Recovery Sign #6: A Rebound in Existing Home Sales. In the last year, demand for previously owned homes ticked 8.8% higher to an annual rate of 4.59 million. And the number of contracts to buy existing homes in February jumped even more – up 14% year-over-year.

Recovery Sign #7: Prices. This will be the last sign of a recovery. Prices a lagging indicator, like unemployment. That being said, signs of a price rebound are materializing. Based on the latest Case-Shiller Indexes, prices in Miami and Phoenix – arguably two of the hardest-hit real estate markets – were up in January by 1.2% and 2%, respectively. That marks the third consecutive month of improving prices in Miami and the fourth in Phoenix.

Recovery Sign #8: Rising Confidence. If insiders know best, they're certainly sending bullish signals. The National Association of Realtors/Wells Fargo Index of builder confidence climbed for the sixth month in March. It's now at the highest level since 2007.

Recovery Sign #9: Historic Affordability. With prices down an average of 36% from the peak – and rent prices rising – it's never been more affordable to buy a home. In fact, the National Association of Realtors Housing Affordability Index hit a record high of 206.1 in January. (A value of 100 means a family earning the national median income can afford a median-priced property at current mortgage rates.)

A separate study by Trulia found it's now less expensive to buy than rent in 98 of America's 100 most populous metropolitan areas. (Honolulu and San Francisco were the lone exceptions.) And yet another study found that the affordability gap is widening, strongly in favor of buying. Deutsche Bank reports that the average rent is now 14.9% more than the average home loan payment – up from 8.1% in the previous quarter.

It's worth noting, too, that borrowing costs are down about 20% in the last year. Mortgage rates hit an all-time low of 3.87% in February – down from 4.95% a year ago.

"Mortgage rates hit an all-time low of 3.87% in February…"

Recovery Sign #10: Employment. It's hard to buy a house if you don't have a job. And no one can deny that the labor market is improving. In the last eight months, the unemployment rate is down almost one full percentage point.

Recovery Sign #11: An Influx of "Smart Money." Greg Zuckerman of The Wall Street Journal reports, "Over the last couple months some of the best investors on the street… have been making big bets on homebuilders." And he's not kidding. The list reads like a "Who's Who" on Wall Street. It includes SAC Capital, Blackstone, Caxton Associates, Cerberus, Canyon Partners and CQS U.K.

The bottom line is this: add all the hard data up and it's clear – the real estate market has officially entered recovery mode. As Warren Buffett recently stated, if he had a way to buy "a couple hundred thousand single-family homes" and easily manage them, he would "load up on them" and "take mortgages out at very, very low rates." I completely agree with Mr. Buffett, and would encourage anyone who has been holding off on getting into the real estate market to act now. Homes have never been more affordable, and these windows of opportunity do not come around often.

Ron Peltier, Chairman and CEO of HomeServices of America, shares his thoughts on the housing market. Click on the image below or visit www.pnwrealestateblog.com to watch this short video.

If you have questions about your local market, contact one of our trusted Prudential Northwest Properties real estate professionals today. They have the knowledge, the expertise, and the best tools in the business to help their clients make wise decisions.

Bert Waugh, Jr., Chairman

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