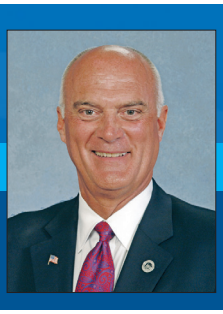
THE CHAIRMAN'S REPORT

First Quarter 2013 Update



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

Homeownership: The Reports of Its Death...

Courtesy of the KCM Blog

Mark Twain and homeownership are both iconic pieces of the American experience. Like what happened to Twain in 1897, recent reports of homeownership's death have been greatly exaggerated. Ever since the housing bubble burst, many so-called experts have predicted the end of homeownership as part of the American Dream. Today, we want to expose some of these myths.

MYTH #1: After the housing crash, Americans would no longer believe in homeownership.

FACT:
While homeownership has fallen from a high of 69.2% in 2004 to 65.4% at the end of 2012, the desire to own a home is still strong.

- 73% of Americans say it is a good time to buy a home. (Fannie Mae)
- 70% of Americans see homeownership as part of the American Dream. (Trulia)
- In every age group from 25 to 65 years old, over 80% plan to buy a home in the future. Even 76% of those over 65 years old plan to buy a home in the future. (Joint Center for Housing Studies at Harvard University)

MYTH #2: Those families that were forced from their homes during the housing crash would never look at homeownership in a positive light again.

FACT:
Many of the sellers who lost their home to a short sale or foreclosure over the last six years are re-entering the housing market as purchasers.

- It is projected that over 700,000 people in this category could be in the market for a home in 2013 and that the number will more than double to over 1.5 million in 2014. (Moody's Analytics)
- Nearly 80% of those homeowners who decided to strategically default (walk away from the house and mortgage) over the last few years have expressed a desire to buy a home again within the next 12 months. (YouWalkAway.com)

MYTH #3: Young adults, after seeing their parents suffer major losses of equity, will not embrace homeownership especially as a financial investment.

FACT:
Not one study has substantiated this myth. Recent studies have actually proven the exact opposite:

- 72% of young adults between 18-35 years old see homeownership as part of their personal American Dream. (Trulia)

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Portland Metro Quarterly Market Highlights from RMLS

Portland Metro Highlights	New Listings	Pending Sales	Closed Sales	Average Sale Price	Median Sale Price	Total Market Time
1st Quarter 2013	7,963	6,466	4,789	$290,300	$247,100	113
4th Quarter 2012	5,375	5,291	5,596	$284,733	$244,066	104
Year-to-date 2013	7,963	6,466	4,789	$290,300	$247,100	113
1st Quarter 2012	8,070	5,809	4,303	$251,700	$212,000	135
4th Quarter 2011	6,159	5,006	4,607	$259,633	$219,800	137
Year-to-date 2012	8,070	5,809	4,303	$251,700	$212,000	135
1st Quarter Change	-1.3%	11.3%	11.3%	15.3%	16.6%	-16.3%
4th Quarter Change	-12.7%	5.7%	21.4%	9.6%	11.0%	-24.1%
Prev. Quarter Change	48.1%	22.2%	-14.4%	1.9%	1.2%	8.6%
Year-to-date Change	-1.3%	11.3%	11.3%	15.3%	16.6%	-16.3%

SW Washington Quarterly Market Highlights from RMLS

SW Washington Highlights	New Listings	Pending Sales	Closed Sales	Average Sale Price	Median Sale Price	Total Market Time
1st Quarter 2013	2,021	1,570	1,181	$240,100	$215,000	125
4th Quarter 2012	1,419	1,270	1,305	$232,033	$204,166	122
Year-to-date 2013	2,021	1,570	1,181	$240,100	$215,000	125
1st Quarter 2012	1,905	1,394	1,056	$199,700	$171,500	138
4th Quarter 2011	1,611	1,332	1,143	$203,500	$180,233	147
Year-to-date 2012	1,905	1,394	1,056	$199,700	$171,500	138
1st Quarter Change	6.1%	12.6%	11.8%	20.2%	25.4%	-9.7%
4th Quarter Change	-11.9%	-4.6%	14.1%	14.0%	13.2%	-17.0%
Prev. Quarter Change	42.4%	23.6%	-9.5%	3.4%	5.3%	2.4%
Year-to-date Change	6.1%	12.6%	11.8%	20.2%	25.4%	-9.7%

- 75% of young adults between 18-35 years old see homeownership as an indicator of success. (Realogy)
- 94% of young adults under 25 and 96% between the ages of 25-34 plan to buy a home. (Joint Center for Housing Studies at Harvard University)
- 79% of young adults under 25 years old and 86% of young adults 25-34 believe that owning is a better financial decision than renting. (Joint Center for Housing Studies at Harvard University)

Obviously, the reports of the death of homeownership in America were GREATLY exaggerated.

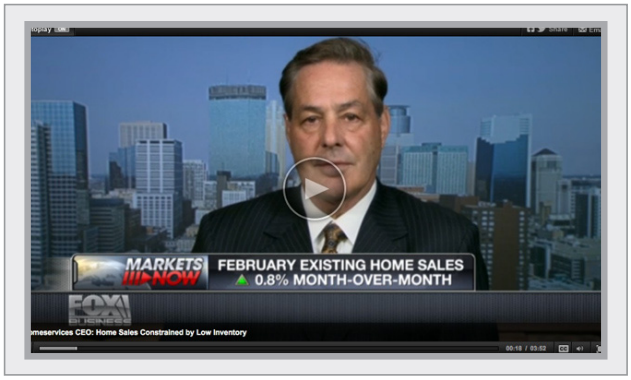
Money Magazine: The Real Estate Market is Back!

The magazine supported their case in the April issue by explaining:

- In the last year, home prices increased in 92 of the country's 100 largest metropolitan areas
- Homes are more affordable than they've been in 40 years
- The number of houses for sale is at the lowest level in a decade
- Price increases are projected for most of the country this year

Nationally, Homes Are in Demand

Ron Peltier, CEO of HomeServices of America, shared his perspective on the real estate market in an interview on Fox Business news in March. In the video below, he discusses inventory, home sales and pricing trends for the coming year.



The Top 10 Real Estate Tax Deductions for Homeowners

By Sam DeBord

Tax time reminds us to take a new look at the changing tax landscape for homeowners. The dynamic atmosphere in Washington, D.C. has a different effect each year on which tax breaks are proposed, rescinded, changed, and extended for taxpayers who own a home.

Thanks to the efforts of many real estate industry groups including the National Association of REALTORS®, many of the tax benefits that homeowners enjoy – which were on the chopping block over the past few months – have been protected and extended through the 2013 tax season.

1. Mortgage Interest Deduction

The mortgage interest deduction has always been the most-beloved tax benefit of home buyers in the U.S. New homeowners' monthly mortgage payments are made up almost entirely by interest for the first few years. Their ability to deduct that interest can result in a healthy reduction in tax liability. Affordability for first-time home buyers is directly linked to their ability to deduct the interest on their mortgage.

Homeowners who itemize their deductions can deduct the interest paid on a mortgage with a balance of up to $1 million.

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While there is some movement to limit the total itemized deductions for taxpayers with higher incomes (over $400,000), the current deductions holds for all tax brackets. Americans save around $100 million every year by deducting mortgage interest on their tax returns.

2. Home Improvement Loan Interest Deduction

The interest on home equity loans used for "capital improvements" to a home can also be a tax deduction. On loans with balances of up to $100,000, the interest is tax-deductible for a homeowner who uses the loan to make improvements to the home such as adding square footage, upgrading the components of the home, or repairing damage from a natural disaster. Maintenance items like changing the carpet and painting a home are usually not included as capital improvement projects.

3. Private Mortgage Insurance (PMI) Deduction

Homeowners who make a down payment of less than twenty percent are usually paying some sort of Private Mortgage Insurance. PMI (sometimes abbreviated MIP or just MI), can be a few dollars to hundreds of dollars per month, and it is a large portion of many homeowners' mortgage payments.

If your mortgage was originated after January 1, 2007, and you have PMI, it can be a tax deduction. The deduction is phased out, ten percent per $1,000, for taxpayers who have an adjusted gross income between $100,000-$109,000 and those above that level do not qualify. The extension of this tax deduction in 2013 was one of many last-second saves by real estate industry advocates.

4. Mortgage Points/Origination Deduction

Homeowners who paid points on their home purchase or refinance can often deduct those points on their tax returns. Points, often called origination fees, are usually percentage-based fees which a lender charges to originate a loan. A one percent fee on a $100,000 loan would be one point, or $1,000.

On a home purchase loan, taxpayers can deduct the entirety of the points they paid in the same year. On a refinance loan, the points must be deducted as an amortization over the life of the loan. Many taxpayers forget about this amortized benefit over time, so it's important to keep good records on the deduction of points on a refinance.

5. Energy Efficiency Upgrades/Repairs Deduction

Homeowners can deduct the cost of the building materials used for energy efficiency upgrades to their home. This is actually a tax credit, one which is applied as a direct reduction of how much tax you owe, not just a reduction in your taxable income.

Ten percent of the total bill for energy-efficient materials can be used as a tax credit, up to a maximum $500 credit. Insulation, doors, new roofs, and many other items qualify for the energy efficiency credit. There are also individual limits for certain items, such as $150 for furnaces, $200 for windows, and $300 for air conditioners and heat pumps.

6. Profit on Sale of Real Estate Deduction

If you've sold a home in the past year, you're likely aware that individuals can claim up to $250,000 of profit from the sale tax-free, and married couples can claim up to $500,000 tax-free. Of course, there are some requirements to escaping the capital gains tax on this profit.

The home must be a primary residence. This means that you must have lived in the home, as your primary residence, for two of the past five years. You could rent it out for years one, three, and five, while living in it for years two and four. In this way, a homeowner could potentially claim this tax break on multiple homes within a fairly short time frame, but each tax-free sale must occur at least two years apart from the previous tax-free transaction.

7. Real Estate Selling Cost Deduction

For those lucky folks whose profits on the sale of their home might exceed the $250k/$500k limits, there are still some ways to reduce the tax burden. The costs of selling the home can be significant, and those in themselves can be claimed as tax deductions.

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By adding up all of the fees paid at closing, capital improvements made to the home while you owned it, money spent to make repairs to damaged property, and marketing costs necessary to sell the home, you can add a significant figure to the cost basis of your home. This basically raises the original price you paid for the home. Your cost basis begins with the original price of the home, and then adds in the improvement and selling costs. When the new cost basis price is compared to your selling price, it reduces your potentially-taxable profit on the home significantly.

8. Home Office Deduction

The home office tax deduction is often cited as a deduction that increases your likelihood of being audited. While the raw numbers might add some credibility to that perception, it's really the way a home office is deducted that gets some taxpayers into audit purgatory.

This deduction, when used correctly, is just as safe as any other. Homeowners deduct a percentage of their mortgage, utilities, and repair bills in direct proportion to the amount of their home that is dedicated office space.

There are a few hard and fast rules to live by when deducting the costs of your home office. The home office must be your principal place of business (the primary office location where you get the majority of your work done). It needs to be exclusively used for business (it can't be your kitchen by day and office by night). You need to be realistic with its size and use (unless you enjoy audits).

9. Property Tax Deduction

New homeowners often don't know that their property taxes are deductible. While it may sound strange to have a tax-deductible tax, the overall effect is that you don't pay income tax on money that was spent on property taxes.

Homeowners should be careful to only deduct the amount of property tax actually paid to their local municipality for the year. This is not necessarily the amount you paid to your escrow account, and should not include any other city/county fees that might potentially be on the same bill as your property taxes.

10. Loan Forgiveness Deduction

The Mortgage Debt Forgiveness Relief Act of 2007 was created when short sales were becoming a new and growing part of the real estate market. An underwater homeowner might convince their lender to agree to a short sale of their home at $100,000, even though they owe $150,000 on their mortgage. While the lender forgives the extra $50,000 owed after the short sale, the government views it as $50,000 in taxable income (a gift from the lender to the borrower).

The Debt Forgiveness Act temporarily relieved the taxpayer of that burden, but was set to expire this year. Through much effort, it was extended along with many other homeowner tax relief measures this year and homeowners can continue to claim this tax relief in 2013.

Please note: This is an informational summary of current tax issues in the news. If you need tax advice, please contact a tax attorney or CPA.

Warren Buffett On Real Estate

Mr. Buffett, Chairman and CEO of Berkshire Hathaway, Inc. shares his comments about housing, the future of the real estate industry and the new Berkshire Hathaway HomeServices brand Prudential Northwest Properties has been invited to adopt.

It's great to see consumer confidence rising and the real estate industry gaining momentum. I think we're in for a busy Spring season.

Bert Waugh, Jr., Chairman
Founder, Transitional Youth

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