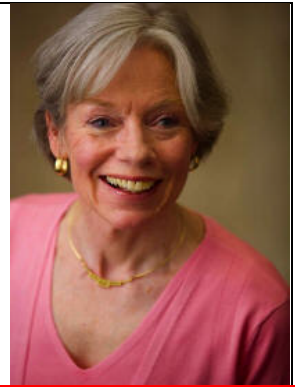


# Moving to Portland™

## February 2008 Newsletter

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### Portland Home Market: December 2007

#### December Residential Highlights

The year 2007 ended with a continued decrease in the number of transactions, but sales prices carried on with a slow, but steady rise. The number of closed sales was down 29.4%, and pending sales also declined 32.5% when comparing December 2007 with December 2006. New listings also dropped for the third straight month, down 3.1%. At the month's rate of sales, the 12,786 active residential listings would last approximately 8.5 months.

Month-over-month, the average sale price increased 8.3% when comparing the month of December 2007 with that of December 2006 and median sale price increased 1.1%.

#### 2007 Summary

Comparing market activity in 2007 with that of 2006, the Portland metro area saw an 8.1% increase in new listings. However, pending sales decreased 15.7%, and closed sales dropped 13.1%.

Portland had its third highest total sales volume in residential real estate, at \$9.7 billion, a 6.7% decrease from the \$10.4 billion in 2006. The average sale price increased 6.3% (\$342,900 v. \$322,600), and the median sale price appreciated 7.2% (\$290,000 v. \$270,500).

#### Fourth Quarter

Comparing the fourth quarter of 2007 with that of 2006, new listings declined 43.7% (5,924 v. 10,525). Closed sales and pending sales also dropped 24.5% (5,298 v. 7,021) and 26.9% (4,766 v. 6,522), respectively.

#### 2007 Condo Appreciation Rates

2007: Average sales price was \$272,900, and condos appreciated 13% over 2006. 2006: Average sales price was \$241,800, and condos appreciated 14% over 2005. 2005: Average sales price was \$212,000, and condos appreciated 14% over 2004. 2004: Average sales price was \$186,600, and condos appreciated 12% over 2003.

## Cost of Residential<sup>1</sup> Homes in the Portland Metro Area December 2007

Area	December 2007 Average Sales Price	Year-to-Date For Period Ending December 2007		Average Price Appreciation <sup>2</sup>
		Average Sales Price	Median Sale Price	
Portland Metro Area				
Includes these counties in Oregon: Clackamas, Columbia, Multnomah, Washington, & Yamhill	\$352,000	\$342,900	\$290,000	6.3%
Portland				
North	\$263,800	\$266,600	\$253,500	8.4%
Northeast	316,900	321,600	283,000	6.4%
Southeast	276,600	285,500	250,000	7.1%
West (Includes SW and NW Portland and parts of eastern Washington County)	525,200	468,100	379,700	3.6%
Portland Metro Suburban Areas				
Corbett, Gresham, Sandy, Troutdale	\$293,000	\$281,900	\$259,900	6.3%
Clackamas, Milwaukie, Gladstone, Sunnyside	306,800	334,200	300,000	-5.4%
Canby, Beavercreek, Molalla, Mulino, Oregon City	298,500	329,600	303,000	1.2%
Lake Oswego and West Linn	667,000	567,900	465,000	7.8%
Northwest Washington County & Sauvie Island	427,200	419,400	385,000	5.4%
Beaverton and Aloha	249,700	286,500	260,000	3.4%
Tigard, Tualatin, Sherwood, Wilsonville	372,200	374,700	339,900	5.3%
Hillsboro and Forest Grove	291,800	297,900	270,000	5.5%
Mt. Hood: Brightwood, Government Camp, Rhododendron, Welches, Wemme, ZigZag	218,900	283,600	254,900	2.0%
Columbia County	229,200	254,000	240,000	11.6%
Yamhill County	284,100	281,600	247,500	6.1%
Marion and Polk Counties	222,100	250,800	226,400	6.9%
North Coastal Counties	328,000	381,600	310,000	14.4%
Southwest Washington State				
Clark County (Battleground, Camas, Ridgefield, Vancouver, Woodland, etc.)	\$291,800	\$305,500	\$262,300	1.7%

<sup>1</sup> Residential includes detached single-family homes, condos, townhomes, manufactured homes, and multi-family (e.g., duplexes, triplexes, etc.) homes when one of the units is sold.

<sup>2</sup> Appreciation percents based on a comparison of average price for the last 12 months (1/1/07-12/31/07) with 12 months before (1/1/06-12/31/06).

Source: Regional Market Listing Service (RMLS™).

## Mortgages Rates Up After a 4-Week Downward Trend

**January 31, 2008**

Freddie Mac released its Primary Mortgage Market Survey (PMMSSM) on January 31st in which the 30-year fixed-rate mortgage (FRM) was 5.68 percent with an average 0.4 point for the week ending January 31, 2008, up from last week when it averaged 5.48 percent. Last year at this time, the 30-year FRM averaged 6.34 percent.

The 15-year FRM this week averaged 5.17 percent with an average 0.4 point, up from last week when it averaged 4.95 percent. A year ago at this time, the 15-year FRM averaged 6.06 percent.

Five-year Treasury-indexed hybrid adjustable-rate mortgages (ARMs) averaged 5.32 percent this week, with an average 0.4 point, up from last week when it averaged 5.13 percent. A year ago, the 5-year ARM averaged 6.04 percent.

One-year Treasury-indexed ARMs averaged 5.05 percent this week with an average 0.7 point, up from last week when it was 4.99 percent. At this time last year, the 1-year ARM averaged 5.54 percent.

(Average commitment rates should be reported along with average fees and points to reflect the total cost of obtaining the mortgage.)

### Freddie Mac Economist

"Mortgage rates ended their four-week descent this week, with average rates on 30-year and 15-year fixed rate mortgages coming up by about 0.2 percentage points," said Frank Nothaft, Freddie Mac vice president and chief economist." This increase completely erased the previous week's decline. The movement in fixed mortgage rates was broadly consistent with the movements of Treasury bonds over the week.

"Reinforcing the Fed's resolution to thwart a recession, the Federal Open Market Committee announced another cut in the target federal funds rate by half of a percentage point in their most recent scheduled meeting. This came on the heels of the Fed's rate cut of three-quarters of a percentage point the previous week, and the shaping-up of a fiscal stimulus package by Congress and the White House. This cut was in line with market expectations."

### Portland Area Mortgage Rates



To check on more Portland metro area mortgage rates visit Professor Guttenberg's Web site at <http://www.mtgprofessor.com> – click on "Fixed-Markup Lender." Taking the average home price in the Portland metro area of \$352,000 for December, 2007 and with 20 percent down payment (\$70,400) and a mortgage of \$281,600, the payment for a 30-year fixed loan is \$1,427 per month (excluding property taxes and insurance) in Portland, Oregon. The interest rate is 4.50%, and the APR is 5.022%. Total lender fees are \$16,478 to include \$11,532 discount points. This fee covers everything and is guaranteed not to change from the time they lock your rate to closing. Escrow fees are waived.

According to the professor: "In using an on-line lender monitored by the mortgage professor, a borrower enjoys competitive wholesale prices, which are disclosed and passed through by the on-line lender; and a standardized and reasonable markup over the wholesale price, which is guaranteed by the professor. This eliminates all potential sources of abuse."

*My advice, "Find a home you can enjoy and afford.  
By all means, get a fixed-rate mortgage. "*

*Susan Marthens*

## Portland Weather

### Ice, Snow, Cold Weather in January 2008



A parade of snowstorms in the past six weeks have blanketed the Northwest from north of Seattle down to Ashland, Oregon. Also hit were Spokane and the entire Cascade range. Over the last few days, schools have either closed repeatedly or delayed opening. As I write the February newsletter, looking out my window, snow is falling outside. It looks like we'll have about 2-4 inches today – we live at an elevation of 550 feet. It will bring the kids out with their sleds and saucers.

### January 2008 Weather Summary

Water Year (October 1 - September 30)	Average Precipitation In Inches	Actual Precipitation in Inches	Water Year
Year-to-Date	19.27	19.79	<p>Portland's rainfall is measured according to the "water year" which is from October 1 through the end of September.</p> <p>The average precipitation for Portland is 37-38 inches.</p> <p>Precipitation is measured from the NOAA Weather Station near the Portland International Airport.</p>
October	2.88	3.26	
November	5.61	4.25	
December	5.71	7.57	
January	5.07	4.71	
February	4.18		
March	3.71		
April	2.64		
May	2.38		
June	1.59		
July	0.70		
August	0.89		
September	1.65		
Year Average	37.07		

Here is the [National Weather Service](http://www.nws.gov) data for the month of January 2008:

- Average Monthly Temperature: 38.8 or 1.1 degrees below normal.
- Average Maximum Temperature: 43.9
- Average Minimum Temperature: 33.6
- Highest Temperature: January 4 at 55.
- Lowest Temperature: December 22 at 22.
- Average Monthly Wind Speed: 9.8 MPH.
- Clear/Cloudy Days: 4 clear days, 6 partly cloudy days, and 21 cloudy days.

### The Weather Café by Rufus

[The Weather Café™](http://www.ovs.com/weather_cafe.htm) by Rufus ([http://www.ovs.com/weather\\_cafe.htm](http://www.ovs.com/weather_cafe.htm)) provides uniquely informative long-range forecasts for specific patrons in the Pacific Northwest. Rufus' forecasts have information of value, but even more, they show a sense of humor and are fun to read. It is a free service for patrons from British Columbia to northern California.

Here is his prediction for the weekend: SUPER BOWL weekend will be wet, BREEZY, and don't be surprised to see SNOW touchdown at very low elevations again. Storm track is the key. If center of low moves onshore south of Astoria, SNOW is possible late Saturday/Sunday for NW Oregon and SW Washington. If center tracks into Washington, snow will remain NORTH of the system. Expect low 60's, cloudy and possibly SHOWERS in Arizona for the big game.

## St. Johns Bridge



At its dedication ceremony in June 1931, St. Johns Bridge designer John Steinman was asked to sum up his creation. "It is the most beautiful bridge in the world, we feel," he said.

In the intervening three-quarters of a century, the view of the graceful Gothic arches of the St. Johns Bridge against the verdant backdrop of Forest Park has become one of the signature images of Portland.

The St. Johns Bridge is a steel suspension bridge that spans the Willamette River in Portland, Oregon, USA, between the St. Johns neighborhood and the northwest industrial area around Linnton. It is the only suspension bridge in the Willamette Valley and one of three public highway suspension bridges in Oregon.

The bridge has two 408 feet tall Gothic towers, a 1,207 foot center span and a total length of 2,067 feet. The adjacent park

and neighborhood of Cathedral Park, Portland, Oregon was named after the Gothic Cathedral-like appearance of the bridge towers. It is the tallest bridge in Portland, with 400 feet tall towers and a 205 foot navigational clearance. The construction of the bridge began a month before the Stock Market Crash of 1929 and provided many county residents with employment during the depression.

Beneath the bridge lies Cathedral Park, with its acres of green space and wetland areas echoing to the calls of red-winged blackbirds and other birds. There's a off-leash dog park; the park also plays host to the popular Cathedral Park Jazz Festival, which takes place the third weekend of July.

By the 1970s, the bridge had been allowed to deteriorate, and cash-strapped Multnomah County asked the state to take over maintenance. Initially, the state declined, since it was also suffering from a lack of funds. But pressure from an association of county governments forced the state government to take it over on August 31, 1975.

### **\$38 Million Rehabilitation**

In 1999 the Oregon Department of Transportation announced a \$27 million rehabilitation project that began in March of 2003 and was completed in the fall of 2005. Included in the project was replacement of the deck, repainting of the towers, water-proofing the main cables, lighting upgrades, and improving access for bicycle and pedestrian traffic. By November 2004, renovation costs soared to \$38 million, due mostly to the need to replace nearly half of the 210 vertical suspender cables.

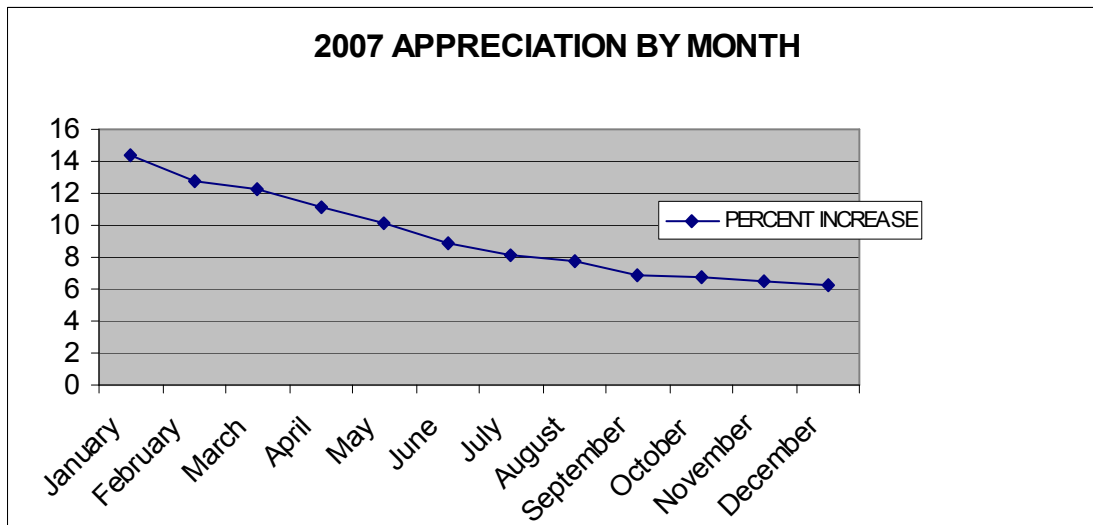
Painting: The painting above is a 10" x 10" acrylic painting of the St. Johns bridge was done by Michelle Noe, an artist with a studio in the St. Johns neighborhood of Portland where she paints and sculpts daily. Visit her Web site at <http://www.michellenoe.com>.

## The Portland Home Market: Final Numbers for 2007

The final numbers are in for 2007: The average home in the Portland metro area appreciated 6.3% (\$342,900 v. \$322,600), and the median sale price appreciated 7.2% (\$290,000 v. \$270,500). Back in the October 2007 newsletter, we predicted that the appreciation for 2007 (based on average price) would be "about 5%." We missed it by 1.3%. Our prediction at that time was made on the numbers for August, 2007 when we began to notice a trend: leveling off of home prices.

Here are the percentages for average sales appreciation for the year:

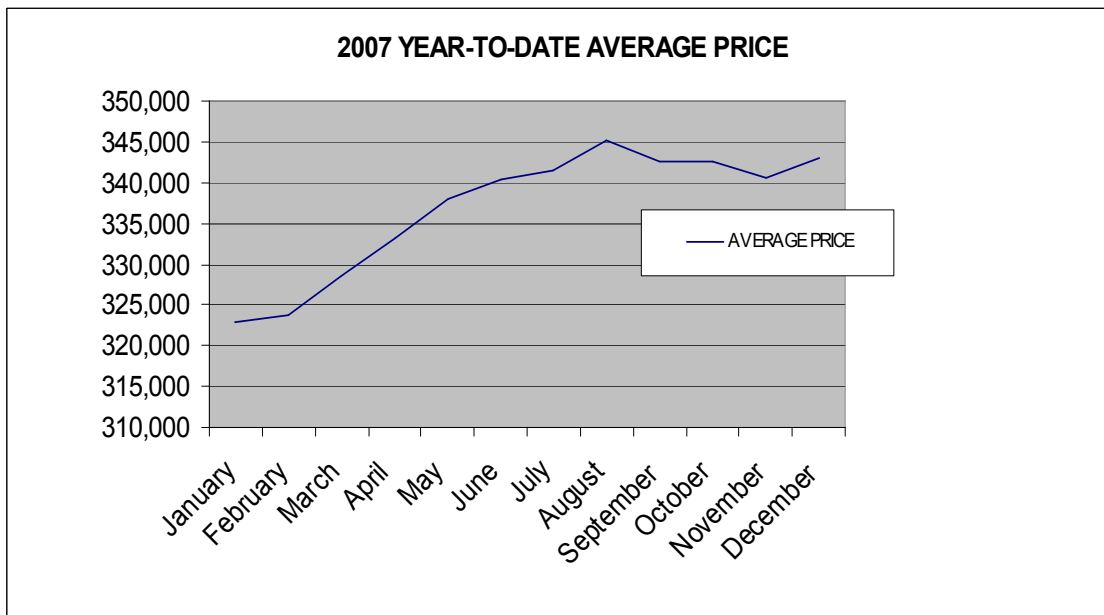
January 16.0%, February 12.8%, March 12.2%, April 11.1%, May 10.1%, June 8.9%, July 8.1%, August 7.8%, September 6.9%, October 6.7%, November 6.5%, December 6.3%.



The final appreciation percentage of 6.3% is based on a comparison of the average price for the last 12 months (1/1/07-12/31/07) with 12 months before (1/1/06-12/31/06). Appreciation percents for the other 11 months are based on a comparison of average price for the last 12 months with 12 months before.

### Average Home Prices in 2007

Taking a look at the year-to-date average home price in the Portland metro area for September, you will see that the number decrease for the first time in 2007. It decreased by \$2,600 from August. In November, the decrease was \$2,000 from October. In December, the average home price took a slight up tick to \$342,900.



## August Marks the Beginning of the Decrease

If you purchase a home in the Portland metro area in August, 2007, your home has depreciated about eight percent. Each month after August also has seen a continued downward trend. That is, except for December, when we had a slight increase in the average price from November.

## Inventory of Homes Remain High

Across the metro area, the inventory of unsold houses remains high. At the present rate of sales, it will take over eight months to sell them. This is nearly double the rate a year earlier. And it took 73 days to sell the average house, up 33 percent, according to the Regional Multiple Listing Service in data that covers Clackamas, Columbia, Multnomah, Washington and Yamhill counties.

## Market Swings

Economists talk about real estate markets moving in seven to 10-year cycles. A boom, then a bust. But the Oregon housing market has been on a nearly perpetual upswing since the early 1990s recession. The Oregon economy fell into a recession after the tech bubble burst in 2001, but the Portland-area housing market burrowed through. Since January 2001, the region posted only two months of year-over-year price declines, and both came in 2001.

Then came the boom. Nationwide, the lending industry loosened its standards, opening the market to investors and marginal buyers who previously couldn't have qualified for loans. That drove up demand and prices across the country.

For 22 consecutive months, Portland reported double-digit price appreciation from October 2004 to July 2006. In that time, median home prices grew from \$212,000 to \$274,000.

The market cooled slightly, but smaller price growth continued until hitting a peak in August. By then, the U.S. subprime market – home loans given to buyers with poor credit – had collapsed and mortgage lenders started to cut back or even close shop. Home prices have fallen steadily since then.

## Three Metro Areas Still on The Plus Side

Portland, Seattle and Charlotte, N.C., are the only three metro areas to escape a declining value in homes. All posted home price growth through October, according to a Standard & Poor's report. That's far better than the top 10 U.S. markets, where prices fell 6.7 percent in October, the largest one-year drop on record. The previous record drop came in April 1991.

Southern California, where prices rocketed up during the upswing, remains one of the hardest-hit markets in the country. The Los Angeles area reported a 13 percent drop in home prices in December compared with a year earlier. Prices in the six-county region hit \$420,000, their lowest level since February 2005, according to [DataQuick Information Systems](#). They reported that December's sales made for the slowest December in DataQuick's records, which go back to 1988.

Source: The Oregonian, January 17, 2008. Article entitled, "Portland Homes Values Tick Up."

## Mortgages: Does it Pay to Prepay?

In the March, 2008 of [CONSUMER REPORTS](#) (CR), their Money Lab examined whether it's more profitable to invest a spare \$100 a month in a mortgage or the stock market.

Whether to take cash you might otherwise invest or pay the loan off ahead of time is a difficult choice. The decision has become even more complex lately given the ups and downs of the stock market and the downs and more downs of the housing market.



## An Extra \$100: Invest or Pay Down Your Mortgage



The question the article posed was this: If a person had an extra \$100 a month to either pay down your mortgage or play the stock market, which would be a better use of the money?

CR statisticians created a computer model to compare prepaying a mortgage with investing in a Standard & Poor's 500 Index mutual fund during a variety of market conditions. Consumer Reports hypothesized that a person buying an average-priced home with 20 percent down and a 30-year fixed-rate mortgage at 132 different points between January 1986 and December 1996.

CR then sold the hypothetical home 10, 15, or 20 years later at the prevailing U.S. average price. They allowed their virtual borrower to refinance to a 15- or 30-year mortgage at appropriate points and catch lower rates. CR ran those numbers again, adding \$100 to each monthly mortgage payment or putting \$100 per month into the no-load, low-expense Vanguard 500 Index fund.

A comparison of the two options had to take into account some complex issues. Mutual funds produce taxable dividends and capital gains distributions, while mortgage interest costs are usually tax deductible. Selling a home typically involves a sales commission to the real-estate agent. Refinancing can lower your interest payments, but it also adds costs. And profits on a home sale of up to \$250,000 for individuals (\$500,000 for married couples filing jointly) are generally not taxable, while those on a mutual fund are. CR's program took those variables into account.

### Stocks Rock, Mortgages Lag

It turns out that our conventional wisdom is wrong! Investing in a S&P index fund will usually yield a better return.

CR's states that, "In recent years and for short periods since 1969, home prices have climbed as much as 16 to 27 percent a year in some regions. But on average, they rose only about 6.5 percent a year during that period. The stock market, meanwhile, went through some dramatic swings. But over the last 20 years it averaged about a 10 percent annual gain, as measured by the S&P. "

In the scenarios in which the home was sold after 10 years, home owners usually get a bigger bang from investing the extra \$100 in the mutual fund than adding it to the mortgage payment. On average over our trials, the fund investment produced a gain of \$10,058 vs. \$4,051 from the added mortgage payment.

### Index Fund Not Always a Winner

The index fund didn't always win. In about a third of those 10-year periods, paying down the mortgage produced a better return. But it's worth noting that when prepaying had the edge, it was a small one, ranging from a meager \$1 to \$2,799. When the fund beat out prepayment, it did so by \$70 to \$16,763.

When CR extended their trial to 15- and 20-year periods of home ownership, the mutual fund had the advantage 100 percent of the time. The average dollar gains from the stock investment grew from \$10,058 in the 10-year trials to \$19,613 in the 15-year competitions and \$41,931 in the 20-year ones.

So the longer you own your home, the less likely it is that mortgage prepayment will be the better choice.

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