

Moving to Portland™

December 2009 Newsletter

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Portland Home Market

October 2009 Residential Highlights

Sales activity in the Portland metro area continued an upward trend compared to same-month sales from a year ago.

Pending sales were up 64% compared to October 2008 and closed sales rose 37.1%. New listings dropped 4.5%.

The 64% jump in pending sales is the largest same-month increase since February 1996. The 2,009 closed sales this October was the highest total since August 2007, and its 37.1% same-month increase is the largest since January 2005.

Compared to September 2009, closed sales increased 11.6% (2,009 v. 1,800), but pending sales dropped 9.1% (2,079 v. 2,286). New listings also fell 4.3% (3,443 v. 3,599). At the month's rate of sales, it would take approximately 6.5 months to sell the 13,101 active residential listings. This is the lowest mark for inventory since August 2007.

Year-to-Date

Comparing January-October 2009 with the same period in 2008, pending sales are up 1.8%. Closed sales are behind last year's total by 8.8%. New listings are down 20.5%.

Sales Prices

The average sale price for October 2009 was down 12.6% compared to October 2008, while the median sale price declined 10.9%.

Month-to-month, the average and median sale price were mixed when compared with September levels; the average sale price was down 2.3% (\$283,500 v. \$290,100), and the median sale price increased 1.5% (\$245,000 v. \$241,400).

Twelve-Month Sales Price Percent Change for Portland Metro Area

The 12-Month Sale Price Percent Change is based on a comparison of the rolling average/median price for the last 12 months (11/1/08-10/31/09) with 12 months before (11/1/07-10/31/08).

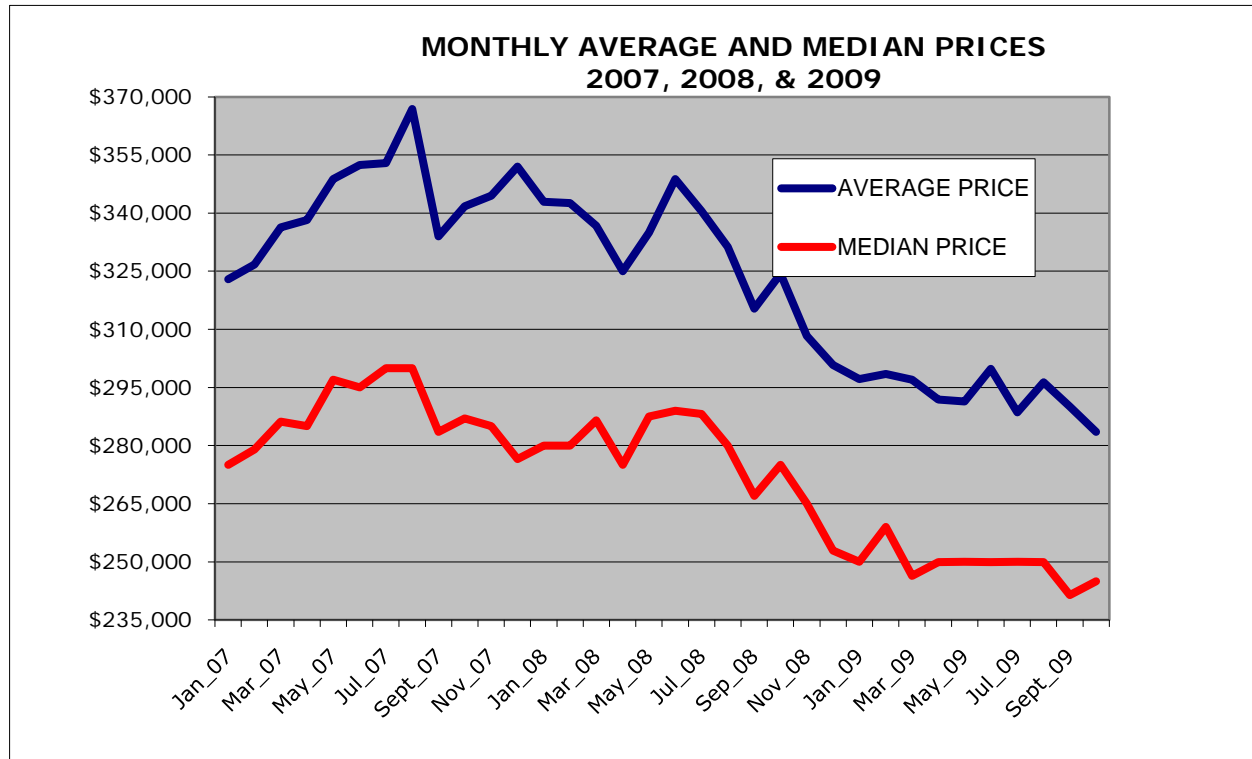
- Average Sale Price Percent Change: -12.6% (\$293,300 v. \$335,700)
- Median Sale Price Percent Change: -10.7% (\$250,000 v. \$280,000)

Here are the sales price percent change from their peak prices in 2007:

- Average Sale Price Percent Change from Peak in August 2007: -22.7% (\$283,500 v. \$366,900)
- Median Sale Price Percent Change from Peak in July/August 2007: -18.3% (\$245,000 v. \$300,000)

October 2009: Average Home Price Drops \$40,800 from October 2008

Below is the MONTHLY AVERAGE AND MEDIAN PRICES: 2007, 2008, 2009 chart showing the home sales by month. The chart is for the Portland metro area – it does not include homes in southwestern Washington (Vancouver to include Clark County).



Comparing the average home price from October 2009 with October 2008 shows a \$40,800 drop in the Portland region's average home price – down to \$283,500 from \$324,300 a year earlier. The median price decreased \$30,000 for the same periods (\$275,000 v. \$245,000).

The average price in 2009 has varied from \$299,800 to October's low of \$283,500. The median's price range for 2009 is \$259,000 to \$242,400. The numbers really jump up and down each month as you can see by the graph above. The median price tends to be a bit more stable than the average price (smooth or even curve). We can conclude that a trend is not evident and prices may continue to go up and down.

Case-Schiller: Portland Posts Fourth Biggest September Decline

Data through September 2009, released in late November by Standard & Poor's for its S&P/Case-Schiller Home

Price Indices, the leading measure of U.S. home prices, show that the U.S. National Home Price Index improved in the third quarter of 2009, posting its second consecutive quarterly increase and further improvement in its annual rate of return.

Portland-area home prices fell .5 percent between August and September in seasonally adjusted figures. That's the fourth biggest decline among the 20 markets tracked in the report. Since their boom-time peaks, Portland is down 20 percent and Seattle is off 29 percent.

The S&P/Case-Shiller U.S. National Home Price Index, which covers all nine U.S. census divisions, recorded an 8.9% decline in the third quarter of 2009 versus the third quarter of 2008. This is a marked improvement over the 14.7% decline in the annual rate of return reported in the second quarter of 2009, and the 19.0% drop in the first quarter. The 10-City and 20-City Composites recorded annual declines of 8.5% and 9.4%, respectively. These two indices, which are reported at a monthly frequency, have generally seen improvements in their annual rates of return every month since the beginning of the year.

San Francisco and Washington, DC, have reported six consecutive months of positive returns. Chicago, Minneapolis, San Diego and the two Composites were close behind with five consecutive months of positive returns. In addition to the two Composites, nine of the MSAs reported positive monthly returns for September and four of those -- Chicago, Detroit Minneapolis and San Francisco -- were greater than +1.0%.

Las Vegas remains the most depressed market. Prices have declined for 37 consecutive months, with a peak-to-trough reading of -55.4%. While Detroit has seen some positive movement in recent months, the market is still at only 73% of its 2000 value. This compares to regions such as Los Angeles, New York and Washington, which have maintained values of 70-80% above their 2000 averages, in spite of the market downturn.

Note: Besides the Oregon five metro area counties, Case-Schiller numbers also include home prices from Clark and Skamania counties in Washington state. This accounts for some of the differences in numbers that we report each month via RMLS.

Oregon Mortgage Delinquencies

Almost 14 percent of homeowners in Oregon owed more on their mortgages in September than their homes were worth, according to third-quarter data, and in the Portland-Beaverton-Vancouver area, the "underwater" percentage is 14.8.

Those percentages fall well below the national rate of 23 percent of homeowners whose mortgages have negative equity and are deemed "underwater" or "upside down," according to a report by [First American CoreLogic](#), a California real estate research firm.

Negative equity can occur because of a decline in value, an increase in mortgage debt or a combination of both.

Portland and Oregon numbers pale in comparison with some other states, such as Nevada, where 65 percent of all mortgages are considered "underwater," followed by Arizona (48 percent) and Florida (45 percent). The Portland area ranks 29th. The Los Angeles area ranks first in the number of "underwater" mortgages.

The number has been growing as pre-foreclosure activity has risen, the report said. Most of the homeowners facing underwater mortgages financed their properties between 2005 and 2008 and used adjustable-rate mortgages.

Source: Portland Business Journal, "About 15% of Portland-Area Mortgages Underwater," Tuesday, November 24, 2009.

Cost of Residential¹ Homes by Area/Community for October 2009

Area	October 2009 Closed Sales	October 2009 Average Sales Price	Year-to-Date For Period Ending October 2009		12-Month Average Sales Price Change ²
			Average Sales Price	Median Sale Price	
Portland Metro Area					
Includes these counties in Oregon: Clackamas, Columbia, Multnomah, Washington, & Yamhill	2,009	\$283,500	\$292,000	\$249,900	-12.6%
Portland					
North	112	\$236,800	\$235,400	\$230,000	-12.0%
Northeast	228	293,900	289,200	255,000	-10.7%
Southeast	298	235,700	243,400	216,000	-11.6%
West (Includes SW and NW Portland and parts of eastern Washington County)	197	401,800	427,000	352,600	-12.0%
Portland Metro Suburban Areas					
Corbett, Gresham, Sandy, Troutdale	148	\$225,300	\$221,900	\$210,000	-15.6%
Clackamas, Milwaukie, Gladstone, Sunnyside	122	277,900	286,800	260,000	-10.6%
Canby, Beavercreek, Molalla, Mulino, Oregon City	75	268,400	282,100	249,500	-10.7%
Lake Oswego and West Linn	115	445,600	488,300	395,000	-14.5%
Northwest Washington County & Sauvie Island	80	361,300	372,200	350,000	-7.6%
Beaverton and Aloha	210	239,200	241,400	225,000	-11.0%
Tigard, Tualatin, Sherwood, Wilsonville	160	299,400	317,800	287,900	-11.2%
Hillsboro and Forest Grove	130	238,100	247,100	228,000	-13.0%
Mt. Hood: Brightwood, Government Camp, Rhododendron, Welches, Wemme, ZigZag	9	431,700	263,600	225,000	-6.2%
Counties Outside the Metro Area					
Columbia County	49	\$197,900	\$196,800	\$186,500	-11.6%
Yamhill County	76	217,000	231,000	210,000	-13.8%
Marion and Polk Counties	99	193,700	206,100	185,500	-13.6%
North Coastal Counties	75	317,200	298,800	245,500	-17.4%
Southwest Washington State					
Clark County (Battleground, Camas, Ridgefield, Vancouver, Woodland, etc.)	535	\$219,700	\$238,700	\$215,000	-15.3%

¹ 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.

² The 12-month sales price change percents are based on a comparison of the rolling average price for the last 12 months (11/1/08-10/31/09) with 12 months before (11/1/07-10/31/08).

Source: Regional Market Listing Service (RMLS™)

Mortgages

Primary Mortgage Market Survey: 30-Year Rates Match all Time Low

Freddie Mac released its Primary Mortgage Market Survey (PMMSSM) in which the 30-year fixed-rate mortgage (FRM) was 4.78 percent with an average 0.7 point for the week ending November 25, 2009, down from last week when it averaged 4.83 percent. Last year at this time, the 30-year FRM averaged 5.97 percent. The 30-year has not been this low since the week ending April 30, 2009, when it averaged 4.78 percent.

The 15-year FRM this week averaged 4.29 percent with an average 0.6 point, down from last week when it averaged 4.32 percent. A year ago at this time, the 15-year FRM averaged 5.74 percent. The 15-year FRM has never been this low since Freddie Mac started tracking it in 1991.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 4.18 percent this week, with an average 0.6 point, down from last week when it averaged 4.25 percent. A year ago, the 5-year ARM averaged 5.86 percent. The 5-year ARM has never been this low since Freddie Mac started tracking it in 2005. The 1-year Treasury-indexed ARM averaged 4.35 percent this week with an average 0.7 point, unchanged from last week when it averaged 4.35 percent. At this time last year, the 1-year ARM averaged 5.18 percent. The 1-year ARM has not been this low since the week ending July 7, 2005, when it averaged 4.33 percent.

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

"Long-term mortgage rates eased for the fourth consecutive week to record levels," said Frank Nothaft, Freddie Mac vice president and chief economist. Interest rates for 30-year fixed mortgage loans tied an all-time record low while both 15-year fixed mortgages and 5-year ARMs broke their corresponding records. Interest rates for 30-year fixed-rate loans are currently 0.8 percentage points below this year's peak set in mid-June, which shaves roughly \$100 off the monthly payments on a \$200,000 mortgage.

"House prices are slowly beginning to firm now. For instance, annual house price declines slowed for the sixth consecutive month in September, down only 3 percent, and represented the smallest decline since February 2008, according to the [Federal Housing Finance Agency's purchase-only house price index](#).

Portland Area Mortgage Rates



To check on Portland metro area mortgage rates visit Professor Guttenberg's Web site at www.mtgprofessor.com – click on "Fixed-Markup Lender." Taking the average home price in Portland of \$283,500 for October, 2009 and with 20 percent down payment (\$56,700) and a mortgage of \$226,800, the payment for a 30-year fixed loan is \$1,083 per month (excluding property taxes and insurance) in Portland, Oregon. The interest rate is 4.00%, and the APR is 4.353%. Total closing costs are \$10,680 – guaranteed lender fees are \$8,637 – the lender fees are guaranteed not to change from the time they lock your rate (30 days) to closing. Closing attorney/agent, appraiser, title insurance, and credit reporting \$2,043. Escrow fees are not waived. FICO credit score 800 (excellent).

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

November 2009 Weather

Water Year (October 1 - September 30)	Average Precipitation In Inches	Actual Precipitation in Inches	Water Year
Year-to-Date	8.49	8.18	Portland's rainfall is measured according to the "water year" which is from October 1 through the end of September. Precipitation is measured from the NOAA Weather Station near the Portland International Airport.
October	2.88	3.05	
November	5.61	5.13	
December	5.71		
January	5.07		
February	4.18		
March	3.71		
April	2.64		
May	2.38		
June	1.59		
July	0.70		
August	0.89		
September	1.65		
Yearly Average	37.07		

Above is the National Weather Service precipitation data for the month of November 2009. Below is the weather summary for the month:

- Average Monthly Temperature: 47.7 (1.9 degree above normal)
- Average Maximum Temperature: 54.1 (normal is 51.8)
- Average Minimum Temperature: 41.4 (normal is 39.8)
- Highest Temperature: November 11 at 64.
- Lowest Temperature: November 24 at 33.
- Number of Days With Light Rain: 22 and 3 days with heavy rain
- Average Monthly Wind Speed: 7.8 MPH.
- Clear/Cloudy Days: 0 fair days, 13 partly cloudy days, and 17 cloudy days.



The Oregon climate of soft winter rains produces some of the world's best food products. My favorites are fruits and especially pears. And what goes with fruit? Cheese and red wine. Oregon is famous for its Pinot Noir, which is usually available in most wine stores all over the USA. You can order it online if you want to send it as a gift or you can't find a Oregon Pinot at your location. Try Storyteller Wine (<http://www.storytellerwine.com>) in Portland.

Here are sources for cheese and fruits:

- **Rasmussen Farms** (<http://www.rasmussenfarms.com>) Located in the Hood River growing area. Rasmussen Farms received the "2008 Best of Hood River Award in the Fruits & Vegetables" category by the U.S. Local Business Association.
- **Rogue Creamery** (<http://www.roguecreamery.com>) They swept past 1,326 cheeses from Wisconsin to Vermont to Oregon to take the prestigious Best of Show award at the American Cheese Society's annual conference in 2009.
- **Tillamook** (<http://www.tillamookcheese.com>) Their sharp cheddar is very popular, also the vintage white.

Oregon in Peril

A report issued in November by the [Pew Center on the States](#) names Oregon as one of 10 U.S. states at greatest peril of following California over a state budgetary cliff.

Even though the national economy has begun to rebound, Oregon is likely to have a harder time coming up with enough money to pay for schools and other public services – or finding enough places it can cut back its spending – than it did when patching together a balanced budget for 2009-2010.

Oregon's unemployment will most like remain high, causing tax revenues to stay low; federal stimulus money to bail out state budgets has largely run out; and voter mandates including long sentences for repeat criminal offenders mean some budget cuts are off limits.

Every year it's the same thing in the Oregon legislature as lawmakers come up with short-term fixes. In their last efforts, they balanced the budget by reversing \$735 million in higher taxes on corporations and high-income individuals. Voters in January could decide to wreck that fix.

To balance budgets for 2010-11 and 2011-12, they most likely will have to drastically cut school funding and other services. The reason is that revenues have declined so much that even if voters decide to keep the \$735 million, it will not balance the budgets.

Other states cited in the report as having the worst state budget picture: Nevada, Michigan, New Jersey, Florida, Illinois, Wisconsin and Rhode Island.

Voters in January to Decide Whether to Reverse 2009-2010 Budget

The 2009 Legislature, faced with a severe shortfall in projected tax revenues and increasing demand for human services, adopted permanent increases to Oregon's corporate tax and income taxes on upper-income Oregonians. The lawmakers rejected warnings from Oregon employers that the hikes would make Oregon less competitive for business attraction and retention.

As is often the case, much of the debate was dominated by the extremes of the political spectrum. "Tax activists" attacked government waste and opposed any tax increases, while "social justice activists" and public employee unions attacked "big corporations" and "the wealthy" for not paying their fair share of taxes. Thoughtful voices in the middle, who have advocated meaningful revenue reform for many years, got drowned out.

It didn't take long before the "tax activists" got their petitions rolling to put the tax increases to the Oregon voters. In January, we will vote on whether to keep or remove \$735 million in higher taxes on corporations and high-income individuals.

The Oregon Story



On the plus side, we have a state full of natural beauty that includes an ocean that borders the western edge of the state, mountains, and rivers. We have water! It's a recreational paradise, and its beauty is so compelling that every day you will find Oregonians talking about their favorite hikes, bike rides, etc. We have rich farm land that grows some of the world's most delicious food. Would we trade it all for oil? I think the overwhelming majority of Oregonians would opt to keep the beauty.

Chairman of the Oregon Economic and Community Development Commission

The following is from an op-ed piece in *THE OREGONIAN* written by Wally Van Valkenburg in early January, 2009. Wally is the chairman of the Oregon Economic and Community Development Commission and is a managing partner of the Portland office of Stoel Rives LLP. We edited his remarks to capture the essence of his thoughts.

Oregon, like every other state, competes in a global economy. To be competitive, we need superior

K-12 schools, a world-class higher education system, a sound infrastructure, and research institutions to produce the kind of innovation that drives the 21st century economy. All of this requires a stable and adequate tax system.

Here are two problems that just about everyone will agree upon: Our public schools (this includes our state universities and colleges) aren't as strong as they need to be and our income taxes are too high. Jobs are created in those states that have a tax structure more favorable to businesses and the people who run them.

Wally's Solution

While we compete with states that draw revenue from property taxes, income or gross receipts taxes, and sales taxes, Oregon clings to a system that generates revenue from only two of those three sources.

Aside from the fact that this seems a particularly ill-advised strategy for a state in which tourism is a leading industry, we simply can't generate enough revenue from the two sources we do tax to make up for the loss from not taxing the third. And because income taxes are the most volatile of the three revenue sources, our structure means we'll continue to have schools flush with cash one year and laying teachers off a few years later.

While it may be that taxing "the wealthy" and "big corporations" polls better than real revenue reform, I suspect Oregon voters are smarter than the pollsters think we are. With the right combination of leadership and public dialogue, dialogue not dominated by the far ends of the political spectrum, real tax reform could occur in Oregon.

Instead of having that dialogue, however, we are about to invest significant resources in a battle that, whomever prevails, will leave us with a bad outcome. Our best hope is that out of this battle, we generate the collective will to reform the system in a way that provides better economic opportunities for all Oregonians.

More Solutions

The above is Wally's solution, and I'll toss in a couple of other thoughts to the solution basket. We have to trust our lawmakers by giving them more latitude to make tax and spending changes and reverse voter mandates such as Oregon's unique kicker rebate that prevents the state from building reserves when times are good. Our Initiative and Referendum system also needs reform.

Sources: THE OREGONIAN, November 12, 2009, *Oregon one of 10 states in 'greatest fiscal peril.'* THE OREGONIAN, January 6, 2009, *Beyond Oregon's brewing income tax battle*, by Wally Van Valkenburg (op-ed). Wally is the chairman of the Oregon Economic and Community Development Commission and is a managing partner of the Portland office of Stoel Rives LLP.

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