

Moving to Portland™

July 2009 Newsletter

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Portland Home Market

May 2009 Residential Highlights

Sales activity in May for the Portland Metro area continued to march upward compared to the prior month but lagged behind 2008 levels.

Comparing May 2009 with the same month in 2008, pending sales were down 7.4% and closed sales decreased 23.4%. New listings also dropped 25.1%.

On the other hand, comparing May 2009 with April 2009, pending sales grew 5.8% (1,967 v. 1,860). Closed sales also rose 9.6% (1,427 v. 1,302). New listings increased 1.9% (3,879 v. 3,808).

Inventory dropped to 10.2 months, down from 11 months in April - the fourth straight month of decline. Active residential listings in May rose to 14,493 - up from 14,328 in April. Active listings appear to be increasing at a slower rate than usual for this time of year.

Sales Prices

The average sale price for May 2009 was down 13% compared to May 2008, while the median sale price also dropped 13%. Month-to-month, the average sale price and median sale price both posted small gains when compared with April levels; the average sale price was up 0.1% (\$291,400 v. \$291,100) and the median sale price was up 0.04% (\$250,000 v. \$249,900).

Year-to-Date

Comparing January-May 2009 with the same period in 2008, closed sales were down 28.1% and pending sales decreased 17.5%. New listings also dropped 23.8%.

12-Month Sales Price Percent Change

The 12-Month Sale Price Percent Change is based on a comparison of the rolling average/median price for the

last 12 months (6/1/08-5/31/09) with 12 months before (6/1/07-5/31/08).

- Average Sale Price Percent Change: -8.1% (\$315,500 v. \$343,200)
- Median Sale Price Percent Change: -6.9% (\$267,000 v. \$287,800)

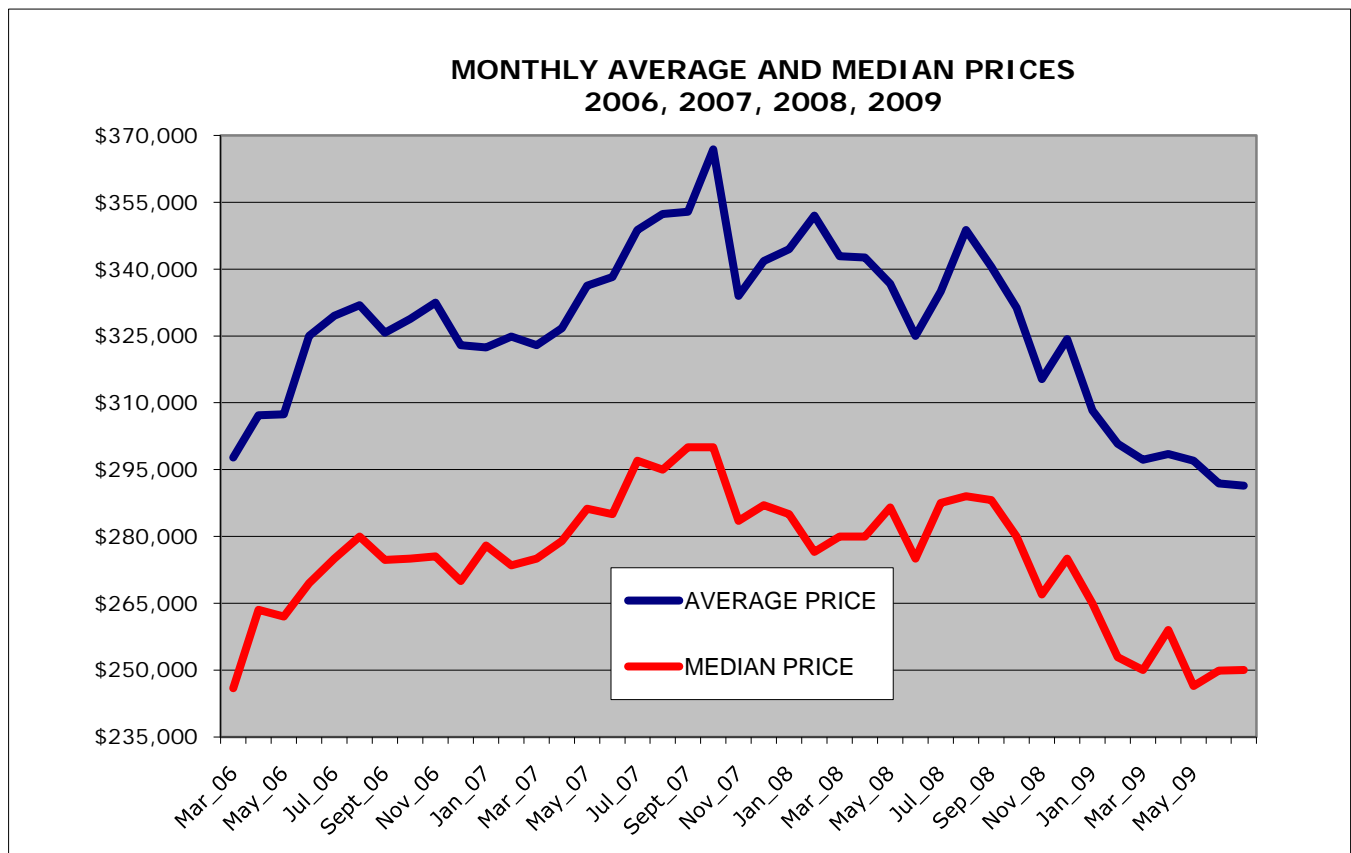
Here are the sales price percent change from their peak prices in 2007:

- Average Sale Price Percent Change from Peak in August 2007: -21% (\$291,400 v. \$366,900)
- Median Sale Price Percent Change from Peak in July/August 2007: -17% (\$250,000 v. \$300,000)

The latest Case-Schiller index reported that homes prices in the Portland metro area have fallen 21% from their peak in July 2007. Last month we reported that the April average sale price had dropped 21% and the April median sale price decreased 17% from July 2007. Besides the Oregon five metro area counties, Case-Schiller numbers also include home prices from Clark and Skamania Counties in Washington state.

May 2009: A Drop of \$43,600 in the Average Price from May 2008

Below is the MONTHLY AVERAGE AND MEDIAN PRICES: 2006, 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).



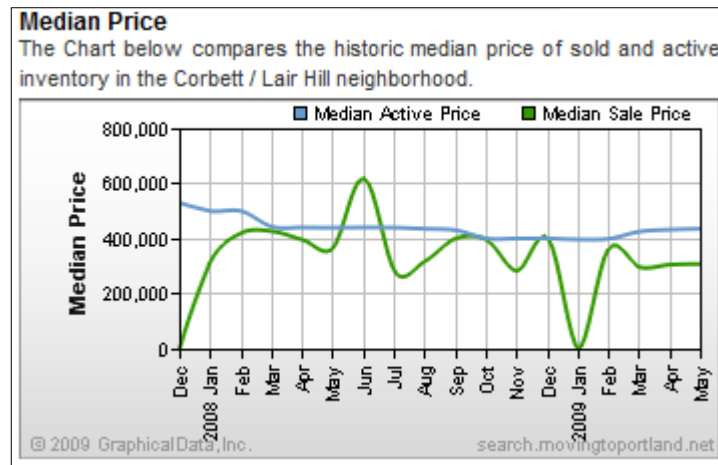
Comparing the average home price from May 2009 with May 2008 shows a \$43,600 drop in the Portland region's average home price – down to \$291,400 from \$335,000 a year earlier. The median price decreased \$37,500 for the same periods (18%).

When was the last time that the average price of a home in the Portland metro area was below \$291,400? In the summer of 2005 the average price of a home was \$286,600 (June) and the median price was \$240,000. In July 2005, the average price was \$286,600 and the median price was \$239,000.

Neighborhood Reports

For those readers of the newsletter that also use the "Search for Homes" tool found at <http://search.movingtoportland.net>, a new feature has been recently added, Neighborhood Digest reports.

The Neighborhood Digest enables you to view real-time RMLS market data that reflects the listing and sales trends in a specific neighborhood and presented in an easily understood, no-nonsense display with charts and graphs. It shows marketing trends, and it plots current listings for sale via Google maps. When viewing a listing within a neighborhood, you just click on the "Neighborhood Report" icon and a report will be generated. You access the report in the 'Report' tab. Below is one of the six screens in a report.



Case-Schiller: Portland Area Home Prices Drop 16%

Portland's home prices continued to decline in April, falling 16 compared with April 2008, according to the latest [Standard & Poor's Case-Shiller](#) index, published in early July.

The Portland region has set record price declines for 16 straight months, and the declines have grown deeper each month since January 2008. Since the July/August 2007 peak, Portland prices have fallen back to June 2005 levels, according to the index.

In April, home prices in 20 major metropolitan areas fell 18.1 percent from a year ago. Although that is a stark drop from April 2008 (when prices were already 15 percent below their April 2007 levels), it is milder than the 19 percent decline recorded in January. Home prices in eight markets actually crept up in April from a month earlier as bargain-hunting buyers tiptoed back into markets. Prices in Cleveland, Dallas and Denver all rose more than 1 percent for the month, although those cities and all of the 20 metro areas in the survey were still down for the year.

But single-home prices are still plunging in parts of the United States hit hardest by the housing boom and bust. Prices in Las Vegas fell 3.5 percent from a month earlier, and were down 32.2 percent from April 2008. Prices in Phoenix were 35.3 percent lower than a year ago.

While the rate of decline did slow a bit, home prices are still under enormous pressure as potential buyers lose their jobs or suffer wage cuts. Home mortgage rates have also bounced back from record lows as investors put more pressure on government bonds, leading to concerns about whether higher borrowing costs will pressure sellers to cut their prices even further.

The private Conference Board reported at the end of June that consumer confidence retreated in June after improving steadily for three months. Consumers said their current economic conditions were worse, and their expectations for the future — which had nudged the index higher — also fell.

Cost of Residential¹ Homes by Area/Community for May 2009

Area	May 2009 Closed Sales	May 2009 Average Sales Price	Year-to-Date For Period Ending May 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	1,427	\$291,400	\$293,800	\$250,000	-8.1%
Portland					
North	59	\$228,200	\$232,700	\$230,000	-6.4%
Northeast	145	286,200	294,600	258,000	-4.3%
Southeast	197	245,800	241,800	215,000	-7.7%
West (Includes SW and NW Portland and parts of eastern Washington County)	161	424,700	438,900	357,000	-2.2%
Portland Metro Suburban Areas					
Corbett, Gresham, Sandy, Troutdale	86	\$230,500	\$228,700	\$215,000	-11.3%
Clackamas, Milwaukie, Gladstone, Sunnyside	114	285,500	293,300	265,000	-7.5%
Canby, Beavercreek, Molalla, Mulino, Oregon City	68	244,800	286,400	246,000	-11.7%
Lake Oswego and West Linn	49	418,200	469,400	390,000	-10.2%
Northwest Washington County & Sauvie Island	74	411,400	375,200	350,000	-5.9%
Beaverton and Aloha	154	249,700	249,200	230,000	-7.6%
Tigard, Tualatin, Sherwood, Wilsonville	114	313,900	318,200	298,300	-7.8%
Hillsboro and Forest Grove	99	265,800	250,300	229,500	-9.2%
Mt. Hood: Brightwood, Government Camp, Rhododendron, Welches, Wemme, ZigZag	7	259,100	281,100	264,800	-1.4%
Counties Outside the Metro Area					
Columbia County	33	201,100	185,600	178,900	-12.5%
Yamhill County	67	225,900	235,800	215,000	-10.4%
Marion and Polk Counties	59	224,500	219,800	199,000	-10.3%
North Coastal Counties	44	292,700	276,900	240,000	-14.2%
Southwest Washington State					
Clark County (Battleground, Camas, Ridgefield, Vancouver, Woodland, etc.)	353	\$239,600	\$242,700	\$217,800	-15.2%

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 (6/1/08-5/31/09) with the 12 months before (6/1/07-5/31/08).

Source: Regional Market Listing Service (RMLS™)

Mortgages

Primary Mortgage Market Survey: 30-Year Fixed at 5.32%

Freddie Mac released its Primary Mortgage Market Survey (PMMSSM) on July 2 in which the 30-year fixed-rate mortgage (FRM) was 5.32 percent with an average 0.7 point for the week ending July 2, 2009, down from last week when it averaged 5.42 percent. Last year at this time, the 30-year FRM averaged 6.35 percent.

The 15-year FRM this week averaged 4.77 percent with an average 0.7 point, down from last week when it averaged 4.87 percent. A year ago at this time, the 15-year FRM averaged 5.92 percent.

Five-year Treasury-indexed hybrid adjustable-rate mortgages (ARMs) averaged 4.88 percent this week, with an average 0.7 point, down from last week when it averaged 4.99 percent. A year ago, the 5-year ARM averaged 5.78 percent.

One-year Treasury-indexed ARMs averaged 4.94 percent this week with an average 0.6 point, up slightly from last week when it averaged 4.93 percent. At this time last year, the 1-year ARM averaged 5.17 percent.

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

"Lower mortgage rates are helping to support the housing market," said Frank Nothaft, Freddie Mac vice president and chief economist. "The 30-year fixed-rate mortgage rate peaked this year over the week of June 11 and are now around a quarter-of-a-percentage point lower this week. This has led to a 7.2 percent increase in conventional mortgage applications for home purchases by the last full week of June, according to the Mortgage Bankers Association.

"The decline in house prices may be moderating as well. Home values fell at a monthly rate of 0.6 percent in April, representing the smallest decrease since June 2008, according to the S&P/Case-Shiller® 20-city composite index. In addition, home prices rose in eight of the cities in April."

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 \$291,400 for May, 2009 and with 20 percent down payment (\$58,280) and a mortgage of \$233,120, the payment for a 30-year fixed loan is \$1,163.93 per month (excluding property taxes and insurance) in Portland, Oregon. The interest rate is 4.375%, and the APR is 4.750%. Total closing costs are \$11,848 - \$5,869.96 of that amount are discount points and guaranteed lender fees are \$4,112.12. This fee covers everything and the lender fees are guaranteed not to change from the time they lock your rate (30 days) to closing. Escrow fees are not waived. FICO credit score 750 (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

June 2008 Weather Summary

Water Year (October 1 - September 30)	Average Precipitation In Inches	Actual Precipitation in Inches	Water Year
Year-to-Date	33.77	24.98	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	1.77	
November	5.61	4.15	
December	5.71	2.70	
January	5.07	4.50	
February	4.18	1.36	
March	3.71	3.71	
April	2.64	2.31	
May	2.38	3.26	
June	1.59	1.32	
July	0.70		
August	0.89		
September	1.65		
Year Average	37.07		

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

- Average Monthly Temperature: 65.7 (3 degree above normal)
- Average Maximum Temperature: 74.8 (normal is 72.7)
- Average Minimum Temperature: 56.6 (normal is 52.6)
- Highest 24-Hour Total Rain: June 18 and 19 with .97 inches.
- Number of Days With Heavy Rain: 1
- Number of Days With Light Rain: 10
- Average Monthly Wind Speed: 6 MPH.
- Clear/Cloudy Days: 15 fair days, 8 partly cloudy days, and 17 cloudy days.

June was a typical 'Portland June' about half of the month which means cloudy and cool. It started out well, but then the weather gods must have checked their calendar and said, "It's too early" so they made an adjustment. They were very considerate and decided to start summer according to the calendar (summer officially starts June 21) this year as the last few days of June was pleasing summer weather.

The July 4th weekend is going to be warm (low 90s) and just like the Memorial Day weekend. If Labor Day turns out as well, we will have a triple header! Hockey fans call a similar event a "Hat Trick" as that's when a player scores three goals in the same game. And a hat-trick occurs in cricket when a bowler dismisses three batsmen with consecutive deliveries.

Is the Recession Over?

The headlines tell us that U.S. income data went up unexpectedly. Many in the financial world are predicting that recovery from the biggest recession in our history is just around the corner. Of course, if the recession is

about to end, that will also mean that the housing market is on the path to recovery also.

A University of Oregon Professor, who took the lead in 2007 saying a recession was likely, now says the downturn could end later this year. Tim Duy, Oregon Economic Forum director, bases his observation on encouraging numbers in a index he assembles each month tracking state and national data. Duy's index tracks seven sets of data ranging from Oregon initial unemployment claims to the U.S. interest rate spread. He crunches the numbers to produce an overall index that has fallen sharply since 2007. In May, the index fell just 0.1 percentage points. And that small drop prompted his optimism.

He cautioned that even after the recession ends, "economic growth is likely to be anemic for an extended period of time" as lenders shun easy-credit practices that helped cause the global crisis.

Portland Metro-Area Unemployment Data Jobless at 11.6 Percent

Obviously, Duy crunched his numbers before the latest Portland metro-area unemployment data came out because the metro area unemployment has jumped more in a year than in any other U.S. urban hub, outdoing even Detroit.

The U.S. Bureau of Labor Statistics ranked Portland-Vancouver-Beaverton's jobless jump first in the nation among metro areas whose populations exceed 1 million. The area's jobless rate climbed 6.7 percentage points from May 2008 to May 2009 — to 11.6 percent, not seasonally adjusted. The federal government defines the area broadly to include Clackamas, Columbia, Multnomah, Washington and Yamhill counties in Oregon and Clark and Skamania counties in Washington.

The Portland-Vancouver-Beaverton area's jobless rate still trailed Detroit-Warren-Livonia's level of 14.9 percent, the nation's highest. It was the over-the-year jump, not the absolute rate, in which the Portland area led the nation. For a third month, Oregon retained its second place in the nation for unemployment (12.4%), just behind Michigan's rate at 14.1%.

What is it about Detroit and Portland, and Michigan and Oregon, the No. 1 and No. 2 states in the nation for unemployment? How could our jobless jump outdo that of the Motor City? Oregon and Michigan have a common trait that hurts during the current recession: both rely heavily on manufacturing durable goods. These are things like cars, in the Midwest, and recreational vehicles, machinery, lumber and computer chips in Oregon. Economists cite more reasons for Portland and Oregon ranking near Detroit and Michigan. One is that Oregon's labor force grew 3.1 percent, second only to Nevada, during the same year's period. More people moved into Oregon, and more Oregonians — such as retirees and nonworking spouses — began job hunting, driving up the jobless rate as they showed up in monthly unemployment surveys.

As a side note, the Portland area median home price is \$250,000 whereas Detroit's median price is \$6,000.

John Mauldin Newsletter

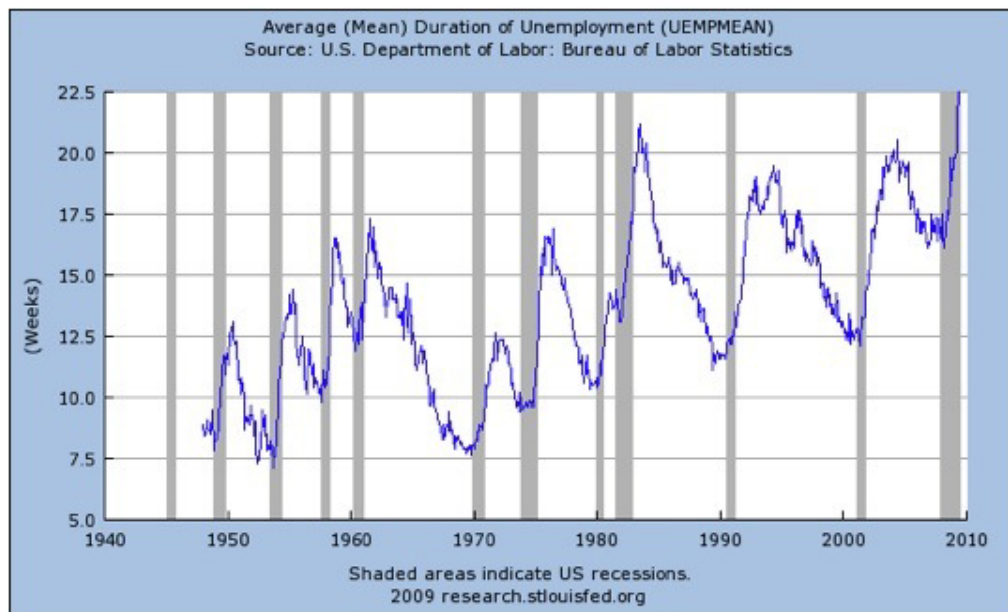
If the unemployment numbers didn't dampen our spirits about a recovery, reading John Mauldin's weekly newsletter at the end of May sure did.

The below paragraphs and charts are from the Mauldin newsletter, but first we have to state the following: John Mauldin, best-selling author and recognized financial expert, is also editor of the free *Thoughts From the Frontline* that goes to over 1 million readers each week. For more information on John or his FREE weekly economic letter go to: <http://www.frontlinethoughts.com/learnmore>. That said, you may want to subscribe to the Mauldin newsletter as it is a rich source of economic news and often goes "against the grain" that others are spreading. Note that the below information is from a late May newsletter and written before the June unemployment data was released.

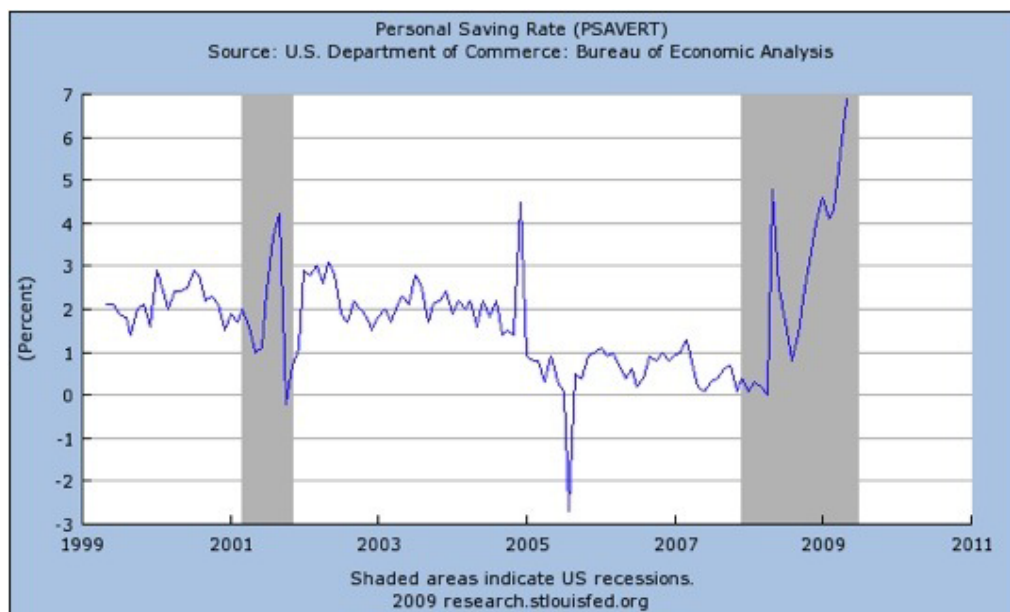
Personal income from wages and salaries was down \$12 billion in May. So how did income go up? A large increase in "government social benefits" and a decline in personal taxes accounted for all the gain, and then

some. The increase was the effect from the recent stimulus package, which is (for now) temporary, and not the result of a recovering economy. It is just borrowed money from another (government) source. In principle, it is not much different than home equity withdrawal, except that taxpayers are on the hook.

And those government subsidies are going to increase. Look at the graph below. What it shows is that the average duration of unemployment is at a 60-year high and rising. It is now at 22.5 weeks. Unemployment benefits stop at 39 weeks, temporarily up from 26 weeks. More and more people each week are thrown into very dire circumstances when they fail to find jobs and lose the benefits. Care to wager whether, when Congress comes back from vacation, the time people are allowed to be on unemployment will be increased?



And speaking of the increase in government payments to individuals, what did they do with them? In aggregate, what is happening to this stimulus? The data came out today, and I must admit I was surprised. I have been writing for years that American consumers would start to save in this recession, but I (and nearly every credible observer I read) thought that we would see a more gradual rate of increase in the savings rate. The increase in savings has been nothing short of remarkable.



From a negative 3% in late 2005 (the result of massive borrowing, primarily mortgage equity withdrawal and credit cards), we have risen to a positive 6.9%. That is the highest rate since 1993. The savings rate was less than 1% last August. And total savings (on an annualized basis) were \$608 billion in April, rising to \$768 billion in May. That is a 30% month-over-month increase! Maybe the American consumer has found a new religion!

But, there is more than just a new savings fervor at work. Spending rose more than disposable income, so without that increased level of government transfer payments, it is unlikely that savings would have risen as much. Before we get too giddy about savings going through the roof, we need to wait a few months to see if this was the result of new savings religion or government transfer payments (stimulus), which will soon wind down.

That being said, given the sharp increase in savings, it's no wonder shipping is down 20% and global trade in the exporting economies by 30%. No wonder retail sales are down, except for Wal-Mart and other lower-price venues.

Final thought for today. The Congressional Budget Office released another report this week, saying that the current deficit levels are unsustainable. They suggest that either taxes must increase by \$440 billion or spending must be cut by a like amount, or some combination. If you assume some of the new health-care and other programs are enacted, the number comes closer to \$700 billion.

This is not a Congress that wants to cut other parts of the budget by \$700 billion. Raising taxes by \$700 billion (over 4% of GDP) will dip us back into recession. Not raising taxes will result in debt that cannot be funded at anywhere close to today's rates. A recent IMF study is very sobering about the worldwide problem of growing country debt. Finding a trillion dollars in the market every year, when every other country is also trying to raise debt, is simply not going to happen. It will destroy the dollar. There are few good choices in front of us, and fewer still good choices that are likely.

OK. One final suggestion for your weekend reading. Atul Gawande, writing in *The New Yorker*, weaves a very sobering picture of the problem of reining in health-care costs. He contrasts two Texas border cities with similar demographics, yet one spends twice as much on health care. One town has doctors who order every possible test and the other doesn't. There is no real difference in outcomes. And then compare it to other areas, and the problem facing any health-care policy becomes all too evident. Reportedly, President Obama has had everyone read this, and you should, too. It provides a very different angle on the problem. http://www.newyorker.com/reporting/2009/06/01/090601fa_fact_gawande?yrail

Source: *The Oregonian*, "Metro-area's jobless jump outpaces the nation" by Richard Read, June 30, 2009.

Source: John Mauldin, Best-Selling author and recognized financial expert, is also editor of the free *Thoughts From the Frontline* that goes to over 1 million readers each week. For more information on John or his FREE weekly economic letter go to <http://www.frontlinethoughts.com>.

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