

# Moving to Portland™

## September 2010 Newsletter

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## Portland Home Market

### July 2010 Residential Highlights

When comparing sales activity in the Portland metro area in July 2010 to the same time last year, July 2009, closed sales declined 29%. Pending sales also decreased 24.9% and new listings rose 3.1%.

On a month-to-month basis, when comparing July 2010 to June 2010, closed sales fell 29.8% (1,412 v. 2,012), while pending sales grew 0.7% (1,629 v. 1,618). New listings also fell 0.5% (4,029 v. 4,049).

At the month's rate of sales, the 15,271 active residential listings would last approximately 10.8 months.

### Sales Prices

The average sale price for July 2010 increased 2.9% compared to July 2009, while the median sale price went down 1.6%.

When comparing July 2010 to the month prior, June 2010, the average sale price increased 2.5% (\$297,000 v. \$289,000) and the median sale price also went up 2.5% (\$246,000 v. \$240,000).

### Year-to-Date

Increases are seen when comparing January-July 2010 with the same period in 2009. Closed sales were up by 22.5%. Pending sales also went up 9.1% and new listings grew 6.8%.

### 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 (8/1/09-7/31/10) with 12 months before (8/1/08-7/31/09).

- Average Sale Price Percent Change: -6.4% (\$284,200 v. \$303,500)
- Median Sale Price Percent Change: -6.6% (\$240,500 v. \$257,500)

### Average Sales Price Drops 19 Percent from Peak in 2007

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

- Average Sale Price Percent Change from Peak in August 2007: -19.0% (\$297,000 v. \$366,900).
- Median Sale Price Percent Change from Peak in July 2007: -19.0% (\$246,000 v. \$302,000).

### Average Home Price Drops \$8,400 from July 2009

Below is the Average Sales Price: 2000 - 2010 chart showing the home sales by 6-month intervals. The chart is for the five county Portland metro area. It does not include homes in southwestern Washington (Vancouver to include Clark County).



Comparing the average home price from July 2010 with July 2009 shows a \$8,400 drop in the Portland region's average home price – up to \$297,000 from \$288,600 a year earlier. The median price decreased \$4,000 for the same period (\$246,000 v. \$250,900).

### Affordability Index

Below is a graph of the "Affordability Index" for the Portland metro area from September 2003 to June 2010.



According to a formula from the National Association of REALTORS®, buying a house in the Portland metro area is affordable for a family earning the median income. A family earning the median income (\$71,200 in 2010, per HUD) can afford 148% of a monthly mortgage payment on a median priced home (\$240,000 in June).

The formula assumes that the buyer has a 20% down payment and a 30 year fixed rate of 4.74% (per Freddie Mac).

Home affordability in Portland has almost caught up with the 2003 level due to the falling prices of homes. There is some good news to the falling home prices as now more families can afford a home. However, getting a home loan now is more difficult than when the prices were rising in the mid 2000s.

### **Case-Schiller: Portland Home Prices Continue to Creep Up, Concern Lingers**

Home prices rose in June for a third straight month nationally – and the fifth in a row in the Portland area – as since-expired tax credits inspired a spurt of home buying. But economists worry it won't last. The S&P/Case-Schiller monthly report released in late August showed that Portland home prices increased 0.5 percent over the month before and 0.2 percent from a year ago.

The firm's 20-city home price index posted a one (1) percent increase from May to June and was up 4.2 percent from a year ago. Home prices nationally were up 4.8 percent in the second quarter compared with the first three months of the year, largely on the strength of federal homebuyer tax credits.

Eighteen cities showed price gains on a monthly basis. Prices in Seattle were unchanged, while prices in Las Vegas fell. Nationally, prices have risen 6 percent from their April 2009 bottom. But they remain 28 percent below their July 2006 peak.

In Portland, prices have risen five percent from their low in March of this year, but they are still down 38 percent from the peak in August 2007. Portland's fall in housing prices was not nearly as steep as some other cities experienced, said David Blitzer, managing director and chairman of Standard and Poor's index committee.

In June, the 10-city and 20-city composites recorded annual returns of 5 percent and 4.2 percent, respectively. These two indices are reported at a monthly frequency and, after 16 consecutive months of improvement in their annual rates of return, June's figures were the first to moderate from their prior month's pace, pointing to a possible slowdown in home prices.

Yale economics professor Robert Shiller said the futures markets for housing do not show a continuation of the upward trend. "It leads to puzzling outlook for home prices and an exceptionally uncertain time," Shiller said.

Karl Case, economics professor at Wellesley College, pointed out how cheap housing has become, with prices down 30 percent from the peak. Combined with record low interest rates, monthly payments are down by about half, he said. For example, at the peak of the bubble, a mortgage for a \$300,000 house at 6.5 percent would cost about \$1,500 a month. The same house now would run about \$815 a month.

Note: The Case-Schiller index covers sales of existing single-family homes in Oregon's Clackamas, Columbia, Multnomah, Washington and Yamhill counties and Washington's Clark and Skamania counties. This accounts for some of the differences in numbers that we report each month via RMLS since RMLS does not include statistics on homes in the state of Washington in the metro area.

Source: *The Oregonian*, "Home price continue to creep up, but concerns lingers" by James Mayer, August 31, 2010.

## Cost of Residential<sup>1</sup> Homes by Area/Community for July 2010

Area	July 2010 Closed Sales	July 2010 Average Sales Price	Year-to-Date For Period Ending July 2010		12-Month Average Sales Price Change <sup>2</sup>
			Average Sales Price	Median Sale Price	
Portland Metro Area					
Includes these counties in Oregon: Clackamas, Columbia, Multnomah, Washington, & Yamhill	1,412	\$297,000	\$282,900	\$240,000	-6.4%
Portland					
North	52	\$226,200	\$232,100	\$227,000	-3.8%
Northeast	168	295,000	285,200	246,500	-5.8%
Southeast	178	244,900	238,200	208,000	-6.5%
West (Includes SW and NW Portland and parts of eastern Washington County)	156	428,000	404,600	339,000	-8.0%
Portland Metro Suburban Areas					
Corbett, Gresham, Sandy, Troutdale	80	\$200,000	\$214,600	\$203,300	-7.6%
Clackamas, Milwaukie, Gladstone, Sunnyside	118	265,200	262,000	242,800	-7.2%
Canby, Beavercreek, Molalla, Mulino, Oregon City	62	266,700	257,100	229,500	-10.2%
Lake Oswego and West Linn	112	439,300	439,700	385,000	-3.6%
Northwest Washington County & Sauvie Island	68	380,900	366,200	338,300	-6.4%
Beaverton and Aloha	119	271,500	243,900	220,000	-4.7%
Tigard, Tualatin, Sherwood, Wilsonville	105	308,700	304,700	278,500	-6.2%
Hillsboro and Forest Grove	94	235,600	233,400	210,000	-8.9%
Mt. Hood: Brightwood, Government Camp, Rhododendron, Welches, Wemme, ZigZag	3	172,700	211,200	186,300	-7.5%
Counties Outside the Metro Area					
Columbia County	32	\$196,700	\$187,500	\$182,000	-11.0%
Yamhill County	65	231,300	218,300	192,000	-9.0%
Marion and Polk Counties	53	207,300	201,400	180,000	-10.1%
North Coastal Counties	59	274,300	280,300	222,000	-6.6%
Southwest Washington State					
Clark County (Battleground, Camas, Ridgefield, Vancouver, Woodland, etc.)	312	\$237,500	\$238,000	\$209,900	-5.9%

<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> The 12-month sales price change percents are based on a comparison of the rolling average price for the last 12 months (8/1/09-7/31/10) with 12 months before (8/1/08-7/31/2009).

Source: Regional Market Listing Service (RMLS™)

## Mortgages

### Primary Mortgage Market Survey: 30-Year Fixed Rate 4.32 Percent

Freddie Mac released its Primary Mortgage Market Survey (PMMS) on September 2, and for yet another week, fixed-rate mortgages reached record lows, as did the 5-year adjustable rate in this survey. (The 30-year fixed-rate survey began in 1971, the 15-year began in 1991, and the 5-year adjustable in 2005.).

- 30-year fixed-rate mortgage (FRM) averaged 4.32 percent with an average 0.7 point for the week ending September 2, 2010, down from last week when it averaged 4.36 percent. Last year at this time, the 30-year FRM averaged 5.08 percent.
- 15-year FRM this week averaged a record low of 3.83 percent with an average 0.6 point, down from last week when it averaged 3.86 percent. A year ago at this time, the 15-year FRM averaged 4.54 percent.
- 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.54 percent this week, with an average 0.6 point, down from last week when it averaged 3.56 percent. A year ago, the 5-year ARM averaged 4.59 percent.
- 1-year Treasury-indexed ARM averaged 3.50 percent this week with an average 0.7 point, down from last week when it averaged 3.52 percent. At this time last year, the 1-year ARM averaged 4.62 percent.

Attributed to Amy Crews Cutts, deputy chief economist, Freddie Mac: "The 12-month price growth of core personal expenditures remained at 1.4 percent in July, which kept overall inflation expectations well at bay. Fed chairman Bernanke reiterated this in his August 27th speech in Wyoming, noting that with inflation expectations reasonably stable and the economy growing, inflation should remain near current readings for some time before rising slowly. As a result, mortgage rates eased further this week to new historic lows."

### Portland Area Mortgage Rates



To check on Portland metro area mortgage rates visit Professor Guttenberg's Web site at [mtgprofessor.com](http://mtgprofessor.com) – click on "Fixed-Markup Lender." Jack M. Guttentag is Professor of Finance Emeritus at the Wharton School of the University of Pennsylvania.

Taking the average home price in the Portland metro area of \$297,000 for July, 2010 and with 20 percent down payment (\$59,400) and a mortgage of \$237,600, the payment for a 30-year fixed loan is \$1,100.36 per month (excluding property taxes and insurance) in Portland, Oregon. The interest rate is 3.75%, and the APR is 3.997%.

Total closing costs are \$8,438.98 – guaranteed lender fees are \$6,330.48 – the lender fees are guaranteed not to change from the time they lock your rate (45 days) to closing. Closing attorney/agent, appraiser, title insurance, and credit reporting \$2,108.50. The markup fees are \$3,269.08. Escrow fees are not waived. FICO credit score 800.

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

### July 2010 Weather Summary

Water Year (October 1 - September 30)	Average Precipitation In Inches	Actual Precipitation in Inches	Water Year
Year-to-Date	35.38	34.59	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	3.76	
January	5.07	4.94	
February	4.18	1.36	
March	3.71	3.58	
April	2.64	2.92	
May	2.38	4.75	
June	1.59	4.28	
July	0.72	0.59	
August	0.89	0.23	
September	1.65		
Yearly Average	37.09		

Above is the National Weather Service precipitation data for the month of June 2010. Below is the weather summary for the month:

- Average Monthly Temperature: 68.1 (-0.4 degree below normal).
- Average Maximum Temperature: 79.5 (average is 79.7).
- Average Minimum Temperature: 56.8 (average is 57.3).
- Days Above 90 Degrees: 7
- Precipitation: 7 days with light rain.
- Highest Temperature: July 29 at 97.
- Lowest Temperature: July 1 at 48.
- Average Wind Speed: 5.7 mile per hour.
- Clear/Cloudy Days: 9 fair days, 16 partly cloudy days, and 6 cloudy days.

According to meteorologists, it was the coldest Portland-area summer in 17 years. "This was also the first summer since summer of 1976 that all three summer months (June, July and August) recorded back-to-back below normal average monthly temperatures," said Steve Pierce, vice president of the Oregon chapter of the American Meteorological Society. "In fact, Portland has now been below average for five back-to-back months, beginning in April and continuing through August. Some of Pierce's highlights (or low-lights) from the summer months:

- It was the 10th coldest June on record at the Portland International Airport.
- It was the wettest June ever recorded (1941-2010). More than 4.25 inches of rain fell.
- It also took longer this year to finally reach 80 degrees for the first time, which was done on June 11. The old record was June 9.

Last summer was the warmest on record, Pierce said, in contrast to this year, when low clouds, a dipping jet stream and marine air kept temperatures well below normal and provided a roller coaster of hot and cold days.

Source: *Portland Tribune*, "Summer was coldest in 17 year" by Pamplin Media Group, September 2, 2010.



## How Residential Property Taxes in Oregon are Determined

Just about everyone that owns a home anywhere in the 50 U.S. states and pays property taxes thinks they pay too much. Especially if they find out that their neighbors have a nicer home and pay less. The starting point for figuring property taxes is determined by what the local assessor considers the market value. Except in Oregon where there is little if any relationship to the market value of a property.

One statement explains the reason that Oregon's property taxes are different than anywhere else in the country: Oregon's base property values are forever frozen in 1995.

### Terms

Before we proceed to an actual example of how the system works, here are some terms you will need to absorb. To make it easier to understand, we have ignored a couple of the Ballot Measures.

- Real Market Value (RMV): The amount in cash which could reasonably be expected by an informed seller acting without compulsion, from an informed buyer acting without compulsion, in an "arms-length" transaction during the period for which the property is taxed.
- Maximum Assessed Value (MAV): Value of property subject to taxation.
- Taxable Assessed Value (TAV): The RMV and MAV are compared, and a property is taxed on the lesser value, which is called the Taxable Assessed Value.

### The Meyers and the Sallos

In October of 2007 the [Willamette Week](#) ran a story about two families, the Meyers and Sallos who lived on opposite sides of Portland—and on the unequal ends of Oregon's property-tax divide. Their two households had much in common. Both were headed by young professionals. Erica Meyers was a business manager at Wilson High School; husband Dan was an architect-in-training. Sol Sallos was a merchandise manager at Nike. Christine, his wife, was a part-time masseuse. Both families bought a home in 2006 for roughly the same price. The Meyers' Craftsman bungalow at the heart of the Northeast Alberta Street arts district cost \$369,000. The Sallos' two-story home in the Southwest Hills cost just a bit more, \$380,000. That's where the similarities end. When their property-tax bills showed up in the mail, they were treated with Oregon's version of discriminatory tax tyranny. The Meyers household was taxed \$1,734. The Sallos family's bill: \$6,356. Two houses, purchased for roughly the same price in the same year. Yet one's property tax bill was more than 3 1/2 times larger than the other.

How can this happen? Because assessed values are stuck in 1995, when one home was still a low-income neighborhood, the property was assessed at just \$79,510. The other home in the Southwest Hills, where values were already high in the '90s, was assessed at \$291,910. Rates rise just three percent a year, even though the real value of the home in the low-income neighborhood grew far faster and is now equal to the Southwest Hills home.

### Measure 5, 47, and 50

It started when voters in 1990 agreed to limit the amount of tax homeowners pay to \$15 for every \$1,000 their property was worth. The initiative—called Measure 5—sought to restrain government but allow taxes to grow with the economy, measured by the value of property. It was a sensible proposal and it had the added benefit of equalizing school funding for rich and poor districts. It passed with 53 percent of the vote.

But tax activists weren't satisfied with Measure 5, because a property's value could still skyrocket. They argued you had to strap down the value of the home for tax purposes—in other words, limit the growth in what's called the assessed value (see below explanation of MAV). So Measure 47 was

put on the ballot and it passed. It didn't change the tax rate. It just rolled back the assessed value of all property to their 1995 levels, minus 10 percent. And it reached into the future, saying assessed values of property can grow no more than three percent a year.

One year later, the Legislature tinkered with Measure 47 just enough to make the law workable, and its new version, Measure 50, passed in 1997. Ten years later, when Oregon was enjoying a booming real-estate market—and a property-tax system mangled by three measures, the system revealed its unfairness. All because Oregon's base property values are forever frozen in 1995.

Measure 50 repealed Measure 47. This legislatively referred measure was drafted to correct a number of technical problems with Measure 47, while replicating its tax cuts.

The objective of Measure 50 was to reduce property taxes in 1997-98 and to control their future growth. It achieved these goals by cutting the 1997-98 district tax levies, and by making three changes: switching to permanent rates, reducing assessed values, and limiting annual growth of assessed value.

While Measure 5 simply limited the tax rates used to calculate taxes imposed, Measure 50 changed the concepts of both assessed values and tax rates. Assessed value is no longer equal to real market value. For 1997-98, the assessed value of every property was reduced to 90 percent of its 1995-96 assessed value. Because growth in value has not been uniform throughout the state, this change had varying impacts. Properties that had experienced the greatest value growth between 1995-96 and 1997-98 received the greatest cuts in assessed value and consequently, in taxes. For new property that did not exist in 1995-96, such as business personal property or improvements, the assessed value was calculated as a percentage of its market value.

## **Oregon Property Tax System Stinks**

Here is what the Willamette Week had to say about Oregon property tax system back in 2007:

You don't need to be a progressive to think our property tax system stinks. You can think government ought to have less dough, or the same amount. It's still appalling. Why? Because real estate doesn't all increase in value at the same rate. Yet our system limits the increase, for tax purposes, to 3 percent a year no matter what.

Consider neighborhoods along Mississippi and Alberta, in Boise-Eliot and elsewhere. Due to rapid gentrification, they've seen property values shoot up like the price of a Hannah Montana ticket. Yet our tax system makes no room for changes in real-world values, and taxes in those neighborhoods are a steal because they still reflect 1995 prices.

Meanwhile, folks in Northwest, on Sauvie Island, in outer East Portland and in the West Hills pay the highest property taxes in the city compared with what their homes are really worth.

Depending where you live, your home could be assessed at 25 percent of its real market value, or 70 percent. And that disparity will continue to grow wider as the years pass and real prices drift ever further from their 1995 levels.

## **The High Tax and Low Tax Neighborhoods**

Multnomah County divides its property-tax map into neighborhood districts. For low residential property taxes, records show the best neighborhood for cheap property taxes is No. 163 in inner Northeast Portland—a rectangle bordered by Northeast Killingsworth Street, North Williams Street, Northeast Fremont Street and I-5. On average, homes there are assessed at 24 percent of their real market value, the lowest rate in the county. The neighborhoods in this area are Piedmont, Woodlawn, Humboldt, King, and Boise.

The highest residential property taxes are in No. 83, an L-shaped neighborhood in Northeast Portland bordering 148th Avenue, Halsey Street, 160th Avenue and the Banfield Expressway. On average, homes there are assessed at 70 percent of their real market value due to their relatively



slow appreciation since 1995.

Should you desire to test the above, go to the [Search for a Home for Sale by Neighborhood](#) tool and find a home in the Woodlawn (low tax area) neighborhood and a home in the Wilkes (high tax area) neighborhood – both should be approximately the same price. The property tax is displayed in the listing. You can also go to [Portland Maps](#) and insert the address of each to find the property tax for each property. Note the market value and assessed value of each – to be accurate, the market values of both properties should be approximately the same assuming each seller is asking a realistic price for their property. The assessed values of each property most likely will show a wide disparity and thus the property tax will also.

### **Another Inequity**

Another inequity occurs when a home sells for significantly more than the RMV that the appraiser has placed on the property. Taxes are often not reassessed when a home sells for significantly more than the RMV. For example, a home sells for between \$500,000 - 600,000 but have a tax assessed value of just \$350,000. Therefore, the taxes are calculated on the \$350,000 amount. What makes it unfair is that a house across the street may have a much lower market value but will pay approximately the same property tax.

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