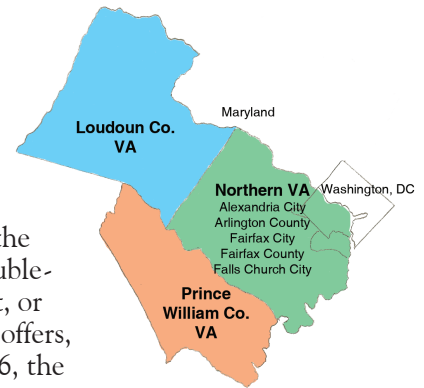


IT'S A MATTER OF PERSPECTIVE

The real estate market in Northern Virginia cooled considerably in 2006. It's not hard to find a fair amount of bad news in the numbers: contract activity was down considerably in every jurisdiction compared to 2005; properties took much longer to sell; and the inventory of available homes was consistently higher throughout the year.

If you were a seller in 2006 – especially if you had owned your home for only a year or so – the market probably looked pretty bad. The expectation set in the first half of the decade of double-digit price appreciation every year could no longer be realized, and those sellers that did not, or could not, adjust to the new reality, saw their home sit on the market. The days of multiple offers, escalation clauses, and no home inspections were over. However, if you were a buyer in 2006, the market looked pretty darn good. For the first time in several years, there was ample inventory, so prospective purchasers had lots of choices. And with those choices came leverage; purchasers were rarely in competition with other buyers and rarely had to pay list price or higher. Interest rates remained incredibly attractive, too.



The health of the market really is a matter of perspective. As the chart below indicates, and contrary to what most might think, the average sales price of a home in the immediate Northern Virginia area (Alexandria, Fairfax and Falls Church cities, Arlington and Fairfax counties) was actually **higher** in 2006 than in 2005. Not much higher, mind you, but it was .6% higher. And, as the charts on page 2 indicate, the average price was higher for condos, attached, and detached homes. It was higher in Prince William County (1.2%), and even though Loudoun County saw a 38% drop in the number of homes sold, the average price only dropped 1.4%. However, the median price of a home dropped in Northern Virginia and in Loudoun, and perhaps most importantly, the second half of the 2006 was weaker than the first half. And, as the chart below indicates, the average and median prices of a home were lower in every area in the second half than in the first half, and homes took longer to sell as well.

So, where's the market heading in 2007? There's some encouraging news to be found in the chart on the top of page three. For most of the 2006, there were considerably more listings coming on the market in any given month than the number of homes going under contract. In the last couple of months, we have seen the substantial gaps shrink, an early indicator that buyers are starting to come back to the marketplace. We do not expect the real estate market in 2007 to return to the heady days of 2003 and 2004, but we do expect improvement. For a complete review of our forecast for 2007, we invite you to visit our website www.mceneaney.com and click on the link for our "2006 Residential Real Estate Market Report."

| NORTHERN VIRGINIA | 2002 | 2003 | 2004 | 2005 | 2006 | 1st Half 2006 | 2nd Half 2006 |
|------------------------|-----------|-----------|-----------|-----------|-----------|---------------|---------------|
| Average Sales Price | \$323,647 | \$365,209 | \$440,507 | \$538,144 | \$541,617 | \$545,380 | \$537,916 |
| Median Sales Price | \$276,000 | \$318,000 | \$385,000 | \$475,000 | \$470,000 | \$480,000 | \$462,401 |
| # of Homes Sold | 29,345 | 31,739 | 33,913 | 30,480 | 21,598 | 11,043 | 11,223 |
| Average Days on Market | 18 | 26 | 19 | 22 | 61 | 53 | 69 |

| LOUDOUN COUNTY | 2002 | 2003 | 2004 | 2005 | 2006 | 1st Half 2006 | 2nd Half 2006 |
|------------------------|-----------|-----------|-----------|-----------|-----------|---------------|---------------|
| Average Sales Price | \$308,809 | \$351,301 | \$437,975 | \$546,867 | \$539,200 | \$550,348 | \$526,185 |
| Median Sales Price | \$269,170 | \$309,900 | \$390,000 | \$485,000 | \$475,000 | \$490,000 | \$455,000 |
| # of Homes Sold | 6,736 | 8,255 | 9,381 | 9,123 | 5,651 | 3,044 | 2,607 |
| Average Days on Market | 29 | 31 | 22 | 26 | 82 | 69 | 97 |

| PRINCE WILLIAM | 2002 | 2003 | 2004 | 2005 | 2006 | 1st Half 2006 | 2nd Half 2006 |
|------------------------|-----------|-----------|-----------|-----------|-----------|---------------|---------------|
| Average Sales Price | \$220,639 | \$259,286 | \$326,335 | \$417,173 | \$422,385 | \$428,708 | \$413,870 |
| Median Sales Price | \$192,000 | \$230,000 | \$295,000 | \$380,000 | \$385,000 | \$390,000 | \$377,000 |
| # of Homes Sold | 10,184 | 11,030 | 13,148 | 13,594 | 8,046 | 4,614 | 3,426 |
| Average Days on Market | 21 | 29 | 21 | 23 | 72 | 60 | 90 |

| Condo/Co-op | New This Month | | | Year-To-Date | | |
|---------------------------|----------------|------------|---------------|--------------|-------------|---------------|
| | 2005 | 2006 | % Change | 2005 | 2006 | % Change |
| Settlements | | | | | | |
| \$299,999 & under | 244 | 227 | -7.0% | 3632 | 2834 | -22.0% |
| \$300,000 - \$499,999 | 389 | 235 | -39.6% | 4220 | 3160 | -25.1% |
| \$500,000 - \$749,999 | 57 | 31 | -45.6% | 533 | 425 | -20.3% |
| \$750,000 - \$999,999 | 5 | 6 | 20.0% | 53 | 67 | -26.4% |
| \$1,000,000 - \$1,499,999 | 5 | 5 | 0.0% | 21 | 27 | 28.6% |
| \$1,500,000 & higher | 1 | 0 | -100.0% | 5 | 5 | 0.0% |
| Grand Total | 701 | 504 | -28.1% | 8464 | 6518 | -23.0% |

| Average Sales Price | Dec 2005 | Dec 2006 | % Change | YTD 2005 | YTD 2006 | % Change |
|---------------------|-----------|-----------|----------|-----------|-----------|----------|
| Condo/Co-op | \$356,643 | \$341,031 | -4.4% | \$334,553 | \$340,549 | 1.8% |

CONDO/CO-OP

- The number of condos and co-ops settling in December 2006 dropped 28.1% compared to December 2005, and the decline for the entire year was 23%.
- The average price was down 4.4% compared to December 2005. However, the average price for the year actually increased – a modest 1.8%.

| Fee Simple Attached | New This Month | | | Year-To-Date | | |
|---------------------------|----------------|------------|---------------|--------------|-------------|---------------|
| | 2005 | 2006 | % Change | 2005 | 2006 | % Change |
| Settlements | | | | | | |
| \$299,999 & under | 6 | 18 | 200.0% | 235 | 90 | -61.7% |
| \$300,000 - \$499,999 | 426 | 366 | -14.1% | 6028 | 4546 | -24.6% |
| \$500,000 - \$749,999 | 168 | 104 | -38.1% | 2364 | 1561 | -34.0% |
| \$750,000 - \$999,999 | 28 | 30 | 7.1% | 319 | 259 | -18.8% |
| \$1,000,000 - \$1,499,999 | 15 | 13 | -13.3% | 94 | 68 | -27.7% |
| \$1,500,000 & higher | 2 | 2 | 0.0% | 29 | 18 | -37.9% |
| Grand Total | 645 | 533 | -17.4% | 9069 | 6542 | -27.9% |

| Average Sales Price | Dec 2005 | Dec 2006 | % Change | YTD 2005 | YTD 2006 | % Change |
|---------------------|-----------|-----------|----------|-----------|-----------|----------|
| Fee Simple Attached | \$500,602 | \$482,841 | -3.5% | \$478,585 | \$479,532 | 0.2% |

ATTACHED HOMES

- The number of settlements dropped 17.4% in December 2006 compared to December 2005.
- The average sales price was down 3.5% in December 2006 compared to December 2005. However, despite the extensive softening of the market throughout the year, the average price was essentially unchanged, up .2%.

| Fee Simple Detached | New This Month | | | Year-To-Date | | |
|---------------------------|----------------|------------|---------------|---------------|-------------|---------------|
| | 2005 | 2006 | % Change | 2005 | 2006 | % Change |
| Settlements | | | | | | |
| \$299,999 & under | 1 | 0 | -100.0% | 11 | 6 | -45.5% |
| \$300,000 - \$499,999 | 108 | 161 | 49.1% | 1888 | 1325 | -29.8% |
| \$500,000 - \$749,999 | 421 | 338 | -19.7% | 6304 | 4524 | -28.2% |
| \$750,000 - \$999,999 | 163 | 110 | -32.5% | 2263 | 1567 | -30.8% |
| \$1,000,000 - \$1,499,999 | 106 | 63 | -40.6% | 995 | 779 | -21.7% |
| \$1,500,000 & higher | 34 | 31 | -8.8% | 393 | 337 | -14.2% |
| Grand Total | 833 | 703 | -15.6% | 11,854 | 8538 | -28.0% |

| Average Sales Price | Dec 2005 | Dec 2006 | % Change | YTD 2005 | YTD 2006 | % Change |
|---------------------|-----------|-----------|----------|-----------|-----------|----------|
| Fee Simple Detached | \$784,780 | \$730,828 | -6.9% | \$731,360 | \$741,788 | 1.4% |

DETACHED HOMES

- The number of settlements in December was down 15.6% compared to last December, and is down 28% for the first eleven months of the year.
- The average sales price for detached homes decreased 6.9% in December 2006 compared to December 2005. However, once again, the average price for the full year was up 1.4%.



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